

LOWELL AREA SCHOOLS
Kent and Ionia Counties, Michigan

Comprehensive Annual Financial Report

For the year ended June 30, 2005

LOWELL AREA SCHOOLS
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For the year ended June 30, 2005

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FINANCIAL SECTION

Hungerford, Aldrin,
Nichols & Carter, P.C.

C P A s A N D C O N S U L T A N T S

INDEPENDENT AUDITOR'S REPORT

September 21, 2005

The Board of Education
Lowell Area Schools

We have audited the accompanying financial statements of the governmental activities, the major fund and the aggregate remaining fund information of Lowell Area Schools (the "District") as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's elected officials and management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the major fund and the aggregate remaining fund information of Lowell Area Schools as of June 30, 2005, and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2005 on our consideration of Lowell Area Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of Lowell Area Schools. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hungerford, Alden, Nichols & Carter, P.C.

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS



As management of the Lowell Area Schools ("the District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with the District's financial statements, which immediately follow this section.

Overview of the Financial Statements

This annual report consists of three parts: Management's Discussion and Analysis (this section), the Basic Financial Statements, and Supplemental Information. The Basic Financial Statements include two kinds of statements that present different views of the District:

- The first two statements, the Statement of Net Assets and the Statement of Activities, are *district-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the district, reporting the District's operations in more detail than the district-wide statements.
 - ♦ *Governmental funds statements* tell how basic services such as regular and special education were financed in the short term as well as what remains for future spending.
 - ♦ *Fiduciary funds statements* provide information about the financial relationships in which the district acts solely as a trustee or agent for the benefit of others.

The Basic Financial Statements also include Notes to Financial Statements that explain the information in the Basic Financial Statements and provide more detailed data. Other Supplemental Information follows and includes combining and individual fund statements.

District-wide Statements

The District-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two district-wide statements report the District's net assets, and how they have changed. Net assets - the difference between the District's assets and liabilities - is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the District's overall health, one should consider additional non-financial factors such as changes in the District's property tax-base and the condition of school buildings and other facilities.



In the district-wide financial statements, the District's activities are presented as follows:

- *Governmental activities:* The District's basic services are included here, such as regular and special education, instructional support, transportation, administration, community services, food service and athletics. State aid and property taxes finance most of these activities.

Condensed District-Wide Financial Information

The Statement of Net Assets provides financial information on the District as a whole.

	2005	2004
Assets		
Current assets	\$ 9,313,944	\$ 9,014,767
Capital assets, net book value	41,069,459	38,709,955
Total Assets	50,383,403	47,724,722
Liabilities		
Current liabilities	13,048,769	8,087,361
Long-term liabilities	48,769,311	48,263,948
Total Liabilities	61,818,080	56,351,309
Net Assets		
Invested in capital assets, net of related debt	(11,751,256)	(11,063,669)
Restricted	546,227	19,770
Unrestricted	(229,648)	2,417,312
Total Net Assets	\$ (11,434,677)	\$ (8,626,587)

The results of the fiscal year's operations for the District as a whole are presented in the Statement of Activities, which shows the change in total net assets for the year.



	2005	2004
Program Revenues		
Charges for services	\$ 1,527,540	\$ 1,326,615
Operating grants	4,192,057	2,826,484
General Revenues		
Property taxes	6,775,791	6,363,669
State school aid, unrestricted	23,401,951	23,912,659
Interest and investment earnings	117,695	228,625
Gain on sale of capital assets	2,480	28,061
Other	468,204	313,224
Total Revenues	36,485,718	34,999,337
Expenses		
Instruction	20,554,156	19,604,950
Supporting services	13,220,347	11,942,909
Community services	444,708	430,245
Food service	1,229,438	1,276,383
Athletics	749,371	629,944
Other	11,068	-
Interest on long-term debt	3,084,720	3,082,808
Total Expenses	39,293,808	36,967,239
Increase (decrease) in net assets	(2,808,090)	(1,967,902)
Net Assets, Beginning of Year	(8,626,587)	(6,658,685)
Net Assets, End of Year	\$ (11,434,677)	\$ (8,626,587)

Financial Analysis of the District as a Whole

The District's financial position is the product of many factors. Student numbers decreased by 18 students from the previous year while the State per-pupil allocation remained the same. As a result, revenue from the State Foundation Allowance decreased by \$510,708. In addition, the District incorporated over \$1 million in expenditure cuts in its original 2004-05 budget. The District entered into an agreement with the teacher's union to offer a severance package to teachers with ten or more years of service. The total cost of the severance package is \$557,420 for each of three years, for a total of \$1.67 million. Audit rules require that the entire expense be recorded in the 2004-05 school year, thus reducing the unrestricted net assets by \$1,672,260.

The District's total revenues increased 4.25 percent to \$36.5 million. Property taxes and state aid accounted for most of the District's revenue, contributing 82.7 cents of every dollar collected. Another 11.5 percent came from state and federal aid for specific programs, and the remainder from fees charged for services, interest earnings and miscellaneous sources.

The total cost of all programs and services rose just under 6.3 percent to \$39.3 million. The District's expenses are predominantly related to instructing, caring for (pupil services) and transporting students (58 percent). The District's administrative and business activities accounted for 7.7 percent of total costs.



The District's total expenses exceeded revenues by \$2,808,090 for 2004-05, resulting in an unrestricted net assets deficit balance of \$229,648 at June 30, 2005. As explained above, this decrease was due to the increase in General Fund expenditures over revenues in 2004-05 and the implementation of the employee severance package entirely expensed in the fiscal year.

The District continues to monitor the State economy and District budget and demographics in an attempt to protect academic programs and opportunities during challenging economic times. Regular updates on the budget and District finances were provided to the Board of Education, community groups, staff, and parents.

- Information was available to community members and parents via the local cable channel, where monthly Board of Education meetings were broadcast. At each monthly Board meeting and at the monthly Board workshop meetings, budget information was shared. The Board was kept updated on the changing economy and the impact on the 2004-05 budget.
- The Key Communicators group (group of community members) continues to meet monthly and receive information vital to their understanding of the operations of the district. Their charge is to communicate back to other community members and parents regarding key issues facing the District.
- Information was also shared throughout the year in the school buildings through Family Links (parent support groups) and public forums.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

The District utilizes two kinds of funds:

- *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or differences) between them.
- *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others, such as Scholarship Funds and Student Activities Funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the district-wide financial statements because it cannot use these assets to finance its operations.



Financial Analysis of the District's Funds

The District uses funds to record and analyze financial information. Lowell Area Schools' funds are described as follows:

Major Funds

General Fund

The General Fund is the District's primary operating fund. The General Fund had total revenues of \$30,714,357 and other financing sources (loan proceeds for the purchase of buses) of \$59,000, total expenditures of \$31,542,872, and other financing uses (contribution to the Athletic Fund) of \$308,967. It ended the fiscal year with a fund balance of \$2,120,363.

Enrollment decreased by 18 students from the previous year while the State per-pupil allocation remained the same. As a result, revenue from the State Foundation Allowance decreased by \$510,708. In addition, the District incorporated over \$1 million in expenditure cuts in its original 2004-05 budget. The District entered into an agreement with the teacher's union to offer a severance package to teachers with ten or more years of service. The total cost of the severance package is \$557,420 for each of three years, for a total of \$1.67 million, of which the first installment will be paid in the 2005-06 fiscal year.

Included in the budget which was adopted was an assumption that, through bargaining, employees would contribute to the cost of health insurance. At June 30, 2005 the collective bargaining agreements were settled and no contribution was collected toward the cost of health insurance. However, those groups accepted a lower-cost MESSA health package while non-union employees switched to a Priority Health plan. In addition to the \$1+ million in cuts incorporated in the original budget, final 2004-05 expenses exceeded revenue by another \$1,078,482 which is reflected as a reduction in fund balance by this amount.

Nonmajor Funds

Special Revenue Funds

The District operates two Special Revenue Funds, for the food service and athletics programs:

- Total revenue for the Food Service Fund was \$1,153,375, with total expenditures of \$1,178,074 and a June 30, 2005 fund balance of \$4,271, due to a General Fund contribution of \$7,350. The food service program is normally self-sufficient, and usually does not rely on General Fund contributions.
- Total revenue for the Athletic Fund was \$403,004 with additional General Fund contributions of \$291,145. Total expenditures were \$668,962, with sixty-four percent (64%) dedicated to salaries and benefits. The fund balance was increased from \$15,318 to \$40,505 for the year ended June 30, 2005.

Debt Service Funds

The District operates three Debt Service Funds – 1990, 2000 and the 2004 fund. Total revenues for the funds were \$4,235,537. Total expenditures were \$4,252,089. The ending fund balances in the Debt Service Funds were \$381,083.



Capital Projects Funds

The District operates three Capital Projects Funds – 2000, 2004 and the new 2005 Energy Conservation Bond fund. Total revenues for the funds were \$26,706 plus energy conservation bond proceeds of \$2,300,000. Total expenditures were \$4,111,336. The ending fund balances in the Capital Projects Funds were \$239,787.

Fiduciary Funds

The Student Activity Fund, Flexible Benefits Fund and the Scholarship Fund are operated as Trust and Agency Funds of the District. The assets of these funds are being held for the benefit of the District's students and employees. Balances on hand at June 30, 2005 totaled \$279,333.

General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget two times after the June, 2004 adoption. These budget amendments fall into two categories:

- Changes made in February to account for the final student enrollment that determines how much foundation grant state school aid will be received during the fiscal year.
- Final changes made in June to reflect actual revenue and expenditures anticipated at June 30, 2005.

Although the District's final budget for the General Fund anticipated that expenditures would exceed revenues by \$1,129,037, the actual results for the year show a deficit of \$1,078,482:

- Actual revenues were \$37,674 higher than expected, miscellaneous local revenues and grants.
- Actual expenditures were \$12,882 below budget, due to adding a two-month accrual of the self-funded insurance for the non-union employees.

Capital Asset and Debt Administration

Capital Assets

By the end of 2005, the District had invested \$56.8 million in a broad range of capital assets, including land, school buildings, athletic facilities, school buses, and furniture and equipment. This amount represents a net increase of \$3.4 million or 6 percent from last year. (More detailed information about capital assets can be found in Note E in the notes to basic financial statements.) Total depreciation expense for the year was \$1.28 million.

At June 30, 2005, the District's investment in capital assets (net of accumulated depreciation), including land, land improvements, buildings, vehicles, furniture and equipment, was \$41.1 million. This represents an increase of approximately \$2.4 million over the previous year-end.



Land	\$ 1,022,158
Land improvements	621,158
Buildings	35,835,393
Furniture and equipment	626,312
Vehicles	665,831
Construction in progress	2,298,607
Net Capital Assets	\$ 41,069,459

Long-Term Debt

At year end, the District had \$52.8 million in general obligation bonds and other long-term debt outstanding – a net increase of \$2.9 million from last year.

- The District continued to pay down its debt, retiring \$1.56 million of outstanding bonds and installment purchase agreements.
- During the year, the District issued energy conservation bonds of \$2,300,000 to complete needed energy, mechanical, and electrical improvements in all the school buildings through a Performance Contracting Program.
- The District also advance refunded \$9,475, 000 of the 2000 bond issue during the year, saving the District \$531,218 in present value of future interest costs.

As of June 30, 2005, the District's outstanding Unlimited Tax General Obligation Bonds have the bond ratings of "Aaa" / "AAA" by Moody's Investors Service and Standard and Poor's, respectively. These bond ratings reflect that the District's Unlimited Tax General Obligation Bonds are fully qualified for the Michigan School Bond Loan Fund Program, a State constitutional credit enhancement program. The underlying bond ratings for such bond issues is "A3" / "A", respectively, without regard to such participation in the Michigan School Bond Loan Fund Program. The state limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the District's boundaries. The District's other obligations include early retirement incentive, compensated absences, and accumulated vacation days. We present more detailed information about our long-term liabilities in Note G in the Notes to Basic Financial Statements.

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of the following circumstances that could significantly affect its financial health in the future:

- While changes were made to current health care plans, rising health care costs continue to be of concern and could significantly impact District finances in the future.
- For every dollar paid to employees throughout the year, the District pays a percentage into the Michigan Public Schools Employee Retirement System (MPERS). The rising cost of this expense, controlled by the State, is a significant cause for concern into the future. In 2004-05, the District paid 14.87% of every dollar of payroll into the MPERS. This amount will increase to 16.34% in 2005-06.



Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office, Lowell Area Schools, 300 High Street, Lowell, MI 49331 via e-mail to the attention of Connie Gillette, Assistant Superintendent for Finance and Personnel - cgillette@lowellschools.com.

BASIC FINANCIAL STATEMENTS

LOWELL AREA SCHOOLS
Statement of Net Assets
June 30, 2005

	<u>Governmental Activities</u>
Assets	
Current Assets	
Cash equivalents (Note B)	\$ 1,800,951
Deposits (Note B)	1,845,000
Investments (Note B)	33,208
Taxes receivable (Note C)	55,613
Accounts receivable	67,174
Due from other governmental units (Note C)	4,819,971
Inventory (Note A)	40,416
Prepaid expenses	651,611
Total Current Assets	<u>9,313,944</u>
Noncurrent Assets	
Capital assets (Note E)	59,756,477
Less accumulated depreciation	<u>(18,687,018)</u>
Total Noncurrent Assets	<u>41,069,459</u>
Total Assets	<u>50,383,403</u>
Liabilities	
Current Liabilities	
Accounts payable	632,317
State aid loan payable (Note F)	2,500,000
Due to other governmental units	617,683
Accrued interest payable	3,204,770
Salaries payable	2,101,570
Current portion of long term obligations	3,992,429
Total Current Liabilities	<u>13,048,769</u>
Noncurrent Liabilities (Notes A, G)	
General obligation bonds payable	44,713,310
Durant non-plaintiff bonds payable	351,677
Energy conservation bonds payable	1,900,000
Installment purchase agreements payable	85,300
Early retirement incentive	1,326,088
Accumulated vacation pay	83,976
Accumulated sick leave	308,960
Total Noncurrent Liabilities	<u>48,769,311</u>
Total Liabilities	<u>61,818,080</u>
Net Assets	
Invested in capital assets, net of related debt	(11,751,256)
Restricted for:	
Debt service	306,440
Capital projects	239,787
Unrestricted	(229,648)
Total Net Assets	<u><u>\$(11,434,677)</u></u>

See accompanying notes to basic financial statements.

LOWELL AREA SCHOOLS
Statement of Activities
For the year ended June 30, 2005

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes In Net Assets
		Charges for Services	Operating Grants	
Governmental Activities				
Instruction	\$ 20,554,156	\$ 86,003	\$ 2,947,307	\$(17,520,846)
Supporting services	13,220,347	116,756	859,773	(12,243,818)
Community services	444,708	154,760	-	(289,948)
Food service	1,229,438	768,405	384,977	(76,056)
Athletics	749,371	401,616	-	(347,755)
Other	11,068	-	-	(11,068)
Interest expense	3,084,720	-	-	(3,084,720)
Total Governmental Activities	\$ 39,293,808	\$ 1,527,540	\$ 4,192,057	(33,574,211)
General Revenues				
Taxes:				
Property taxes, levied for general operations				2,590,538
Property taxes, levied for debt service				4,185,253
State school aid, unrestricted				23,401,951
Interest and investment earnings				117,695
Gain on sale of capital assets				2,480
Other				468,204
Total General Revenues				30,766,121
Change in Net Assets				(2,808,090)
Net Assets - Beginning of Year				(8,626,587)
Net Assets - End of Year				<u>\$(11,434,677)</u>

See accompanying notes to basic financial statements.

LOWELL AREA SCHOOLS
Balance Sheet
Governmental Funds
June 30, 2005

	General	Nonmajor	Total
Assets			
Cash equivalents (Note B)	\$ 1,505,810	\$ 295,141	\$ 1,800,951
Deposits (Note B)	1,500,000	345,000	1,845,000
Investments (Note B)	-	33,208	33,208
Taxes receivable (Note C)	40,670	14,943	55,613
Accounts receivable	57,736	4,338	62,074
Due from other funds (Note D)	5,100	9,500	14,600
Due from other governmental units (Note C)	4,809,468	10,503	4,819,971
Inventory (Note A)	21,831	18,585	40,416
Prepaid expenditures (Note A)	70,000	-	70,000
Total Assets	<u><u>\$ 8,010,615</u></u>	<u><u>\$ 731,218</u></u>	<u><u>\$ 8,741,833</u></u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 594,948	\$ 37,369	\$ 632,317
State aid loan payable (Note F)	2,500,000	-	2,500,000
Due to other funds (Note D)	9,500	-	9,500
Due to other governmental units	615,180	2,503	617,683
Accrued interest payable	39,141	-	39,141
Salaries payable	2,090,813	10,757	2,101,570
Deferred revenue	40,670	14,943	55,613
Total Liabilities	<u><u>5,890,252</u></u>	<u><u>65,572</u></u>	<u><u>5,955,824</u></u>
Fund Balances			
Reserved for:			
Debt service	-	381,083	381,083
Capital outlay	-	239,787	239,787
Unreserved:			
Undesignated, reported in:			
General fund	2,120,363	-	2,120,363
Special revenue funds	-	44,776	44,776
Total Fund Balances	<u><u>2,120,363</u></u>	<u><u>665,646</u></u>	<u><u>2,786,009</u></u>
Total Liabilities and Fund Balances	<u><u>\$ 8,010,615</u></u>	<u><u>\$ 731,218</u></u>	<u><u>\$ 8,741,833</u></u>

See accompanying notes to basic financial statements.

LOWELL AREA SCHOOLS
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2005

Total governmental fund balances \$ 2,786,009

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of assets is \$59,756,477 and accumulated depreciation is \$18,687,018. 41,069,459

Net bond premium and refunding and issuance costs are not expensed but are amortized over the life of the new bond issue. 581,611

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:

General obligation bonds	\$(47,683,310)	
Durant non-plaintiff bonds	(380,506)	
Energy conservation bonds	(2,100,000)	
Installment purchase agreements	(174,900)	
Early retirement incentive	(1,980,088)	
Accumulated vacation pay	(108,976)	
Accumulated sick leave	(333,960)	
	<u>(5,601,740)</u>	(52,761,740)

Accrued interest is not included as a liability in governmental funds. (3,165,629)

Deferred revenue recognized as revenue in the full accrual statements:
Property taxes 55,613

Total Net Assets - Governmental Activities \$ (11,434,677)

See accompanying notes to basic financial statements.

LOWELL AREA SCHOOLS
Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2005

	General	Nonmajor	Total
Revenues			
Local sources	\$ 3,505,326	\$ 5,431,077	\$ 8,936,403
State sources	23,825,599	75,076	23,900,675
Federal sources	1,006,125	309,901	1,316,026
Interdistrict sources	2,377,307	-	2,377,307
Total Revenues	<u>30,714,357</u>	<u>5,816,054</u>	<u>36,530,411</u>
Expenditures			
Current:			
Instruction	18,288,526	-	18,288,526
Supporting services	10,151,941	-	10,151,941
Community services	406,443	-	406,443
Food service	-	1,178,004	1,178,004
Athletics	-	668,962	668,962
Capital outlay	-	4,054,476	4,054,476
Debt service:			
Principal repayment	345,373	1,212,028	1,557,401
Interest and fiscal charges	71,109	3,040,061	3,111,170
Bond issuance costs		122,980	122,980
Underwriter's discount		73,125	73,125
Interdistrict	2,279,480	-	2,279,480
Total Expenditures	<u>31,542,872</u>	<u>10,349,636</u>	<u>41,892,508</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(828,515)</u>	<u>(4,533,582)</u>	<u>(5,362,097)</u>
Other Financing Sources (Uses)			
Bonds issued	-	2,300,000	2,300,000
Refunding bonds issued	-	10,025,000	10,025,000
Bond premium	-	358,736	358,736
Loan proceeds	59,000	-	59,000
Transfers in	-	298,495	298,495
Other	-	1,457	1,457
Payments to escrow agent	-	(10,219,242)	(10,219,242)
Transfers out	(298,495)	-	(298,495)
Other	(10,472)	-	(10,472)
Total Other Financing Sources (Uses)	<u>(249,967)</u>	<u>2,764,446</u>	<u>2,514,479</u>
Net Change in Fund Balances	(1,078,482)	(1,769,136)	(2,847,618)
Fund Balances, Beginning of Year	<u>3,198,845</u>	<u>2,434,782</u>	<u>5,633,627</u>
Fund Balances, End of Year	<u><u>\$ 2,120,363</u></u>	<u><u>\$ 665,646</u></u>	<u><u>\$ 2,786,009</u></u>

See accompanying notes to basic financial statements.

LOWELL AREA SCHOOLS
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the year ended June 30, 2005

Net change in fund balances - total governmental funds \$(2,847,618)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of these assets is capitalized and the cost is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period:

Capital outlays	\$ 3,646,348	
Depreciation expense	<u>(1,281,844)</u>	2,364,504

As some delinquent personal property taxes will not be collected for several years after the District's fiscal year ends, they are not considered "available" revenues in the governmental funds, and are instead counted as deferred tax revenues. They are, however, recorded as revenues in the Statement of Activities. (41,150)

In the Statement of Activities, only the gain on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale(s) increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the assets sold. (5,000)

Net bond premium and refunding and issuance costs are not expensed but but are amortized over the life of the new bond issue. 581,611

Proceeds from the sale of bonds or loans are an other financing source in the governmental funds, but increase long-term liabilities in the Statement of Net Assets. (12,384,000)

Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets and does not effect the Statement of Activities:

Repayment of bonds	10,687,028	
Repayment of energy conservation bonds	200,000	
Repayment of installment purchase agreements	<u>144,777</u>	11,031,805

Interest on long-term liabilities in the Statement of Activities differs from the amount reported on the governmental funds because interest is recorded as an expenditure in the funds when it is due and paid, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues regardless of when it is paid. 26,450

In the Statement of Net Assets, early retirement incentive, accumulated sick/vacation pay and compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures are measured by the amount of financial resources used (essentially, the amounts actually paid). This year the amount of these benefits earned (\$2,049,572) exceeded the amounts used/paid (\$514,880). (1,534,692)

Total changes in net assets - governmental activities \$(2,808,090)

See accompanying notes to basic financial statements.

LOWELL AREA SCHOOLS
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2005

	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Local sources	\$ 3,393,628	\$ 3,486,720	\$ 3,505,326	\$ 18,606
State sources	24,251,606	23,824,201	23,825,599	1,398
Federal sources	338,443	988,498	1,006,125	17,627
Interdistrict sources	2,597,938	2,377,264	2,377,307	43
Total Revenues	30,581,615	30,676,683	30,714,357	37,674
Expenditures				
Current:				
Instruction:				
Basic programs	14,697,543	15,015,194	15,020,124	(4,930)
Added needs	3,545,471	3,250,674	3,252,504	(1,830)
Adult education services	-	15,997	15,898	99
Supporting services:				
Pupil services	1,659,595	705,299	707,980	(2,681)
Instructional staff services	1,290,002	1,248,008	1,253,547	(5,539)
General administrative services	497,397	527,941	528,258	(317)
School administrative services	1,982,937	1,870,511	1,872,889	(2,378)
Business services	694,712	659,369	662,099	(2,730)
Operation and maintenance services	2,867,316	2,932,804	2,939,079	(6,275)
Pupil transportation services	2,436,291	1,543,164	1,542,459	705
Central services	464,455	642,705	645,630	(2,925)
Community services	246,095	405,676	406,443	(767)
Debt Service:				
Principal repayment	186,454	345,373	345,373	-
Interest and fiscal charges	44,375	71,109	71,109	-
Interdistrict	211,585	2,321,930	2,279,480	42,450
Total Expenditures	30,824,228	31,555,754	31,542,872	12,882
Excess (Deficiency) Of Revenues Over Expenditures	(242,613)	(879,071)	(828,515)	50,556
Other Financing Sources (Uses)				
Loan proceeds	-	59,000	59,000	-
Transfers out	(291,145)	(298,495)	(298,495)	-
Other	-	(10,471)	(10,472)	(1)
Total Other Financing Sources (Uses)	(291,145)	(249,966)	(249,967)	(1)
Net Change in Fund Balances	(533,758)	(1,129,037)	(1,078,482)	50,555
Fund Balances, July 1	3,198,845	3,198,845	3,198,845	-
Fund Balances, June 30	\$ 2,665,087	\$ 2,069,808	\$ 2,120,363	\$ 50,555

See accompanying notes to basic financial statements.

LOWELL AREA SCHOOLS
Fiduciary Funds
Statement of Fiduciary Net Assets
June 30, 2005

	Private Purpose Trust Funds	Agency Funds
Assets		
Cash equivalents (Note B)	\$ 47,426	\$ 178,130
Deposits (Note B)	<u>322,006</u>	<u>101,203</u>
Total Assets	<u><u>\$ 369,432</u></u>	<u><u>\$ 279,333</u></u>
Liabilities		
Due to other funds (Note D)	\$ 5,000	\$ -
Due to student groups	-	279,333
Due to employees	<u>39,071</u>	<u>-</u>
Total Liabilities	<u>44,071</u>	<u><u>\$ 279,333</u></u>
Net Assets		
Held in trust for:		
Individuals and organizations	<u><u>\$ 325,361</u></u>	

See accompanying notes to basic financial statements.

LOWELL AREA SCHOOLS
Fiduciary Funds
Statement of Changes in Fiduciary Net Assets
For the year ended June 30, 2005

	Private Purpose Trust Fund
Additions	
Donations	\$ 9,045
Interest earnings	<u>6,760</u>
Total Additions	15,805
Deductions	
Endowment activities - scholarships	<u>10,477</u>
Change In Net Assets	5,328
Net Assets, Beginning of Year	<u>320,033</u>
Net Assets, End of Year	<u><u>\$ 325,361</u></u>

See accompanying notes to basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

LOWELL AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2005

Note A – Summary of Significant Accounting Policies

Lowell Area Schools was organized under the School Code of the State of Michigan, and services a population of approximately 3,897 students. The District is governed by an elected Board of Education consisting of seven members and administered by a Superintendent who is appointed by the aforementioned Board. The District provides a comprehensive range of educational services as specified by state statute and Board of Education policy. These services include elementary education, secondary education, pre-school programs, athletic activities, special education, community services and general administrative services. The Board of Education also has broad financial responsibilities, including the approval of the annual budget and the establishment of a system of accounting and budgetary controls.

The financial statements of Lowell Area Schools (the “District”) have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to school districts. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The more significant of the District’s accounting policies are described below.

1. Reporting Entity

The financial reporting entity consists of a primary government and its component units. The District is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate and is fiscally independent of other state or local governments. Furthermore, there are no component units combined with the District for financial statement presentation purposes, and the District is not included in any other governmental reporting entity. Consequently, the District’s financial statements include the funds of those organizational entities for which its elected governing board is financially accountable.

2. District-Wide and Fund Financial Statements

District-Wide Financial Statements - The district-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) present financial information about the District as a whole. The reported information includes all of the nonfiduciary activities of the District. The District does not allocate indirect costs and, for the most part, the effect of interfund activity has been removed. These statements are to distinguish between the *governmental* and *business-type activities* of the District. *Governmental activities* normally are supported by taxes and intergovernmental revenues, and are reported separately from *business-type* activities, which rely to a significant extent on fees and charges for support. The District does not have any business-type activities.

The Statement of Net Assets is presented on the classified basis and is reported on the full accrual, economic resource basis, which recognizes all long-term assets as well as all long-term debt and obligations. The District’s net assets are reported in three parts: invested in capital assets, net of related debt; restricted net assets, and unrestricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Property taxes, unrestricted state aid, interest earnings and other items not included among program revenues are reported instead as *general revenues*.

LOWELL AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2005

Separate financial statements are provided for governmental and fiduciary funds, even though the latter are excluded from the government wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. The General Fund is the District's only major fund. Non-major funds are aggregated and presented in a single column.

Fund Financial Statements – Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Fund level statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances. The Balance Sheet reports current assets, current liabilities and fund balances. The Statement of Revenues, Expenditures and Changes in Fund Balances reports on the sources and uses of current financial resources. This differs from the economic resources measurement focus used to report at the district-wide level. Reconciliations between the two sets of statements are provided in separate statements.

Revenues are recognized when susceptible to accrual; i.e., both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days after the end of the current fiscal period. Expenditures are generally recorded when the liability is incurred, if they are paid within 60 days after the end of the current fiscal period. The exception to this general rule is that principal and interest on long-term debt is recognized when due.

Revenues susceptible to accrual are property taxes, state aid, federal and interdistrict revenues and investment income. Other revenues are recognized when received. Deferred revenue arises when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. Deferred revenue also arises when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurrence of the qualifying expenditures.

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation

District-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as is the fiduciary fund financial statement. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met.

The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The State portion of the foundation is provided from the State's School Aid Fund and is recognized as revenues in accordance with state law and accounting principles generally accepted in the United States of America.

Governmental Funds

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use, and balances of a school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

LOWELL AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2005

General Fund—The General Fund is the general operating fund of a school district. It is used to account for all financial resources, except those required to be accounted for in another fund. Included are all transactions related to the current operating budget.

Special Revenue Funds—Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

School Service Funds—School Service Funds are used to segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. A school district maintains full control of these funds. The School Service Funds maintained by the District are the Food Service and Athletic Funds.

Debt Service Funds—Debt Service Funds are used to account for the accumulation of resources for, and the payment of, long-term debt (bonds, notes, loans, leases and school bond loan) principal, interest, and related costs.

Capital Projects Funds—Capital Projects Funds are used to record bond proceeds, property tax revenues or other revenues and the disbursement of monies specifically designated for acquiring new school sites, buildings, equipment and for major remodeling and repairs. The funds are retained until the purpose for which the funds were created has been accomplished.

The Capital Projects Funds include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the District has complied with the applicable provisions of Section 1351a of the State of Michigan's School Code.

Fiduciary Funds

Fiduciary Funds are used to account for assets held by a school district in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. Fiduciary Fund net assets and results of operations are not included in the district-wide financial statements. Fiduciary funds are reported using the economic resources measurement focus. The District presently maintains scholarship funds for the benefit of students.

Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District presently maintains a Student Activities Fund to record the transactions of student groups for school and school related purposes. The funds are segregated and held in trust for the students.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the district-wide and fiduciary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted as they are needed.

LOWELL AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2005

4. Budgets and Budgetary Accounting

State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act) requires that the General Fund of a school district be under budgetary control and that both budgeted and actual financial results do not incur a deficit. Lowell Area Schools has also adopted budgets for its Special Revenue Funds. A school district's General Appropriations Resolution (the "budget") must be adopted before the beginning of each fiscal year. No violations (dollar deviations) from a district's budget may occur without a corresponding amendment to the budget. A school district has the ability to amend the budget provided that the amendment is prior to the occurrence of the deviation and prior to the fiscal year-end. A school district may also permit the chief administrative or fiscal officer to execute transfers between line items, within defined dollar or percentage limits, without prior approval of the Board of Education. Expenditures may not legally exceed budgeted appropriations at the fund level. All appropriations lapse at the end of the fiscal year.

Lowell Area Schools utilizes the following procedures in establishing the budgetary data reflected in the financial statements:

- Starting in the spring, District administrative personnel and department heads work with the Superintendent and Associate Superintendent for Finance to establish proposed operating budgets for the fiscal year commencing the following July 1.
- In June, preliminary operating budgets are submitted to the Board of Education. These budgets include proposed expenditures and the means of financing them.
- Prior to June 30, a public hearing is held to obtain taxpayer comments on the proposed budgets.
- After the budgets are finalized, the Board of Education adopts an appropriations resolution setting forth the amount of the proposed expenditures and the sources of revenue to finance them.
- The original General and Special Revenue Funds budgets were amended during the year in compliance with State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act).
- Budgets for the General and Special Revenue Funds were adopted on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles.

5. Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budget integration in the governmental funds. There were no substantial encumbrances outstanding at year end.

6. Investments

Investments are recorded at fair value, based on quoted market prices, or estimated fair value. Investment income is composed of interest and net changes in the fair value of applicable investments.

LOWELL AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2005

7. Inventory

Inventories are valued at cost (first-in, first-out). Inventories of the General Fund consist of teaching and custodial supplies. Inventories of the Food Service Fund consist of food, unused commodities and other nonperishable supplies. Disbursements for inventory-type items are recorded as expenditures at the time of use for each fund.

8. Capital Assets

Capital assets, which include land, land improvements, buildings, vehicles and furniture and equipment, are reported in the district-wide financial statements. Assets having a useful life in excess of one year and whose costs exceed \$5,000 are capitalized. Capital assets are stated at historical cost or estimated historical cost where actual cost information is not available. Donated capital assets are stated at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's useful life are not capitalized. Improvements are capitalized and depreciated over the remaining useful life of the related assets.

Land improvements, buildings and additions, vehicles and furniture and equipment are depreciated using the straight-line method over the following estimated useful lives:

Land improvements	10-20 years
Buildings and additions	40-50 years
Vehicles	5-10 years
Furniture and equipment	3-10 years

9. Long-Term Obligations

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported at the total amount of bonds issued.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

10. Early Retirement Incentive/Accumulated Vacation Pay and Sick Leave

Early retirement incentive and accumulated vacation pay and sick leave at June 30, 2005 have been computed and recorded in the basic financial statements of the District. Eligible District employees who select early retirement are entitled to a termination leave payment based on their age and years of service. Employees who leave the District are also entitled to reimbursement for a portion of their unused vacation and sick days. At June 30, 2005, the accumulated liabilities, including salary related payments, (expected to be financed by General Fund revenues) for early retirement incentive, accumulated vacation pay and accumulated sick leave amounted to \$1,980,088, \$108,976 and \$333,960, respectively.

LOWELL AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2005

11. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for expenditures or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

12. Interfund Activity

Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers between governmental funds are eliminated in the Statement of Activities. Interfund transfers in the fund financial statements are reported as other financing sources/uses.

13. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note B – Cash Equivalents, Deposits and Investments

The State of Michigan allows a political subdivision to authorize its Treasurer or other chief fiscal officer to invest surplus funds belonging to and under the control of the entity as follows:

- Bonds, securities, and other obligations of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution is a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and that maintains a principal office or branch office located in this state under the laws of this state or the United States.
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of the purchase.
- United States or federal obligation repurchase agreements.
- Banker's acceptances of United States Banks.
- Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.
- Surplus funds investment pools.

Depositories actively used by the District during the year are detailed as follows:

1. Huntington National Bank

LOWELL AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2005

Balances at June 30, 2005 related to cash equivalents and deposits are detailed in the Basic Financial Statements as follows:

Governmental Funds	\$ 3,645,951
Fiduciary Funds	<u>648,765</u>
	<u><u>\$ 4,294,716</u></u>

Cash equivalents consist of bank public funds checking accounts. Deposits consist of certificates of deposit.

June 30, 2005 balances are detailed as follows:

Cash equivalents	\$ 2,026,507
Deposits	<u>2,268,209</u>
	<u><u>\$ 4,294,716</u></u>

Custodial credit risk

Custodial credit risk is the risk that in the event of bank failure, the District's deposits may not be returned to the District. Protection of District cash equivalents and deposits is provided by the Federal Deposit Insurance Corporation. At year end, the carrying amount of the District's cash equivalents and deposits was \$4,294,716 and the bank balance was \$4,657,003. Of the bank balance, \$100,000 was covered by federal depository insurance and \$4,557,003 was uninsured.

Investments

As of June 30, 2005 the District had the following investments:

	<u>Fair Value</u>
Investment Pool Accounts:	
Huntington National Bank	<u>\$ 33,208</u>

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a failure of the counterparty, the District may not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District minimizes custodial credit risk by limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

Credit Risk

The District's investments in the Huntington National Bank investment pool was unrated

Interest Rate Risk

The District minimizes interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market, and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements and by investing operating funds primarily in shorter term investments under 365 days. Unless matched to a specific cash flow, the District will not directly invest in securities maturing more than 18 months from the date of purchase. Reserve funds may be invested in securities exceeding 18 months if the maturity of such investments are made to coincide as nearly as practicable with the expected use of funds.

LOWELL AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2005

Concentration of Credit Risk

The District's investment policy places no restrictions on the amount or percentage that may be invested in any one type of security.

Foreign Currency Risk

The District is not authorized to invest in investments which have this type of risk.

Note C – State School Aid/Property Taxes

On March 15, 1994, the voters of the State of Michigan approved Proposal A, which increased the State Sales and Use Tax rates from 4% to 6% and established a State Education Tax at a rate of 6 mills on all property, except that which is exempt by law from ad valorem property taxes, and dedicated the additional revenues generated to Michigan school districts. The amount of 2004 ad valorem State Education Taxes generated within the Lowell Area School District, and paid to the State of Michigan, totaled \$3,562,388.

These additional State revenues pass through to Michigan school districts in the form of a per pupil "Foundation Allowance" paid on a "blended count" of District pupil membership in February, 2004 and September, 2004. The 2004-05 "Foundation Allowance" for Lowell Area Schools was \$6,700 for 3,903 "Full Time Equivalent" students, generating \$23,856,618 in state aid payments to the District of which \$4,382,060 was paid to the District in July and August, 2005 and included in "Due From Other Governmental Units" of the General Fund and Food Service Special Revenue Fund of the District.

Property taxes for the District are levied July 1 and December 1 under a split-levy by the City of Lowell and the Townships of Ada, Bowne, Cannon, Cascade, Grattan, Lowell, Vergennes, Boston, Campbell and Keene. The taxes are then collected by each governmental unit and remitted to the District. The Counties of Kent and Ionia, through their Delinquent Tax Revolving Fund, advance all delinquent real property taxes at March 1 to the District each year prior to June 30. Delinquent personal property taxes receivable are detailed as follows:

Tax Year	General	Debt Service	Total
2004	\$ 10,202	\$ 4,069	\$ 14,271
2003	9,283	3,675	12,958
2002	21,185	7,199	28,384
	<u>\$ 40,670</u>	<u>\$ 14,943</u>	<u>\$ 55,613</u>

Taxes uncollected after three years from the date of levy, unless material in amount, are written off the books of the District.

Section 1211(1) of 1993 PA 312 states that beginning in 1994, the board of a school district shall levy not more than 18 mills, if approved by voters, for school operating purposes, or the number of mills levied in 1993, whichever is less, on non-homestead property only, in order to be eligible to receive funds under the State School Aid Act of 1979. After 1996, electors may approve a 3 mill "Local Enhancement Millage" which must be shared between all local districts in each respective county intermediate district.

As Lowell Area Schools' electors had previously (September 24, 1991) approved an operating millage extension, the 18 mill non-homestead property tax was levied in the District for 2004.

The District levied 7.0 mills in 2004 for debt service purposes, applied on all taxable property in the District.

LOWELL AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2005

Taxable property in the District is assessed initially at 50% of true cash value by the assessing officials of the various units of government that comprise the District. These valuations are then equalized by the county and finally by the State of Michigan, generating the State Equalized Valuation. Taxable valuation increases will be limited, or capped (known as capped valuation), at 5% or the rate of inflation, whichever is less. With the implementation of Proposal A, taxable property is now divided into two categories: homestead and non-homestead.

Homestead property is exempt from the 18 mill "School Operating" tax. It is not exempt from the 6 mill "State Education" tax, any voted "Local Enhancement Millage", nor any additional voted millage for the retirement of debt.

Non-homestead property is considered to be all property not qualifying for a homestead exemption, which includes all commercial and industrial property. Non-homestead property is subject to all District levies.

Note D – Interfund Receivables/Payables and Transfers

Amounts due from (to) other funds representing interfund receivables and payables for cash flow advances at June 30, 2005 are detailed as follows:

	Due From	Due To
General Fund:		
Building and Site Funds:		
2004 Construction Fund	\$ —	\$ 9,500
Trust and Agency Funds:		
Flexible Benefits Fund	5,100	—
	<u>5,100</u>	<u>9,500</u>
Building and Site Funds:		
2004 Construction Fund:		
General Fund	9,500	—
Trust and Agency Funds:		
Flexible Benefits Fund:		
General Fund	—	5,000
	<u>—</u>	<u>5,000</u>
Total All Funds	<u><u>\$ 14,600</u></u>	<u><u>\$ 14,500</u></u>

Transfers between funds during the year ended June 30, 2005 were as follows:

	Transfers In	Transfers Out
General Fund		
Special Revenue Funds:		
Food Service Fund	\$ —	\$ 7,350
Athletics Fund	—	291,145
	<u>—</u>	<u>298,495</u>
Special Revenue Funds		
Food Service Fund:		
General Fund	7,350	—
Athletics Fund:		
General Fund	291,145	—
	<u>298,495</u>	<u>—</u>
Total All Funds	<u><u>\$ 298,495</u></u>	<u><u>\$ 298,495</u></u>

LOWELL AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2005

The General Fund transfer to the Athletic fund was made to pay the General Fund's share of support for the athletic program for the fiscal year and the transfer to the Food Service Fund was made to move State "At Risk" monies to the food service program.

Note E – Capital Assets

Capital asset activity for the year ended June 30, 2005 was as follows:

	Balances July 1, 2004	Additions	Deductions	Balances June 30, 2005
Capital assets not depreciated:				
Land	\$ 1,022,158	\$ —	\$ —	\$ 1,022,158
Construction in progress	7,173,266	2,298,607	7,173,266	2,298,607
Capital assets being depreciated:				
Land improvements	1,200,286	86,605	—	1,286,891
Buildings and additions	43,776,055	7,976,620	—	51,752,675
Furniture and equipment	803,952	385,989	—	1,189,941
Vehicles	2,400,213	71,792	265,800	2,206,205
	<u>56,375,930</u>	<u>\$10,819,613</u>	<u>\$7,439,066</u>	<u>59,756,477</u>
Totals at historical cost				
Less accumulated depreciation for:				
Land improvements	610,436	\$ 55,297	\$ —	665,733
Buildings and additions	14,963,105	954,177	—	15,917,282
Furniture and equipment	473,711	89,918	—	563,629
Vehicles	1,618,723	182,452	260,801	1,540,374
	<u>17,665,975</u>	<u>\$1,281,844</u>	<u>\$ 260,801</u>	<u>18,687,018</u>
Total accumulated depreciation				
Net Capital Assets	<u>\$ 38,709,955</u>			<u>\$ 41,069,459</u>

Depreciation expense was charged to District activities as follows:

Governmental activities:	
Instruction	\$ 856,229
Supporting services	257,082
Community services	38,265
Food service	49,859
Athletics	80,409
	<u>\$ 1,281,844</u>

Note F – Short-term Debt

On August 20, 2003, the District borrowed \$2,000,000 in anticipation of state aid (interest at 1.02%). The final payment of \$278,792 was made on August 20, 2004. On August 20, 2004, the District borrowed \$2,500,000 in anticipation of State aid (interest at 1.57%). The loan is due to be repaid in full on August 19, 2005. Interest cost on the loans was \$39,141 for the fiscal year.

LOWELL AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2005

Note G – Long-term Debt

Amounts available and to be provided for outstanding long-term debt at June 30, 2005 are summarized as follows:

	General Obligation Bonds	Durant Non-plaintiff Bonds	Energy Conservation Bonds	Installment Purchase Agreements	Early Retirement Incentive/ Accumulated Sick/Vacation	Total
Amount Available For Retirement Of Long- Term Debt						
Debt Service Funds	\$ 381,083	\$ —	\$ —	\$ —	\$ —	\$ 381,083
Amounts To Be Provided For Retirement Of Long- Term Debt						
State of Michigan	—	380,506	—	—	—	380,506
General Fund	—	—	2,100,000	174,900	2,423,024	4,697,924
Debt Service Funds	47,302,227	—	—	—	—	47,302,227
Total Amounts Available and To Be Provided	\$47,683,310	\$ 380,506	\$ 2,100,000	\$ 174,900	\$ 2,423,024	\$52,761,740

Changes in long-term debt for the year ended June 30, 2005 are summarized as follows:

	Debt Outstanding July 1, 2004	Debt Added	Debt Retired	Debt Outstanding June 30, 2005
General obligation bonds:				
November 9, 1990	\$ 887,028	\$ —	\$ 887,028	\$ —
October 6, 1992	15,598,310	—	—	15,598,310
June 3, 1997	16,545,000	—	—	16,545,000
November 1, 2000	11,750,000	—	9,800,000	1,950,000
March 25, 2005	3,565,000	—	—	3,565,000
June 29, 2005	—	10,025,000	—	10,025,000
Durant non-plaintiff bonds:				
November 13, 1998	380,506	—	—	380,506
Energy conservation bonds:				
August 1, 2004	—	2,300,000	200,000	2,100,000
Installment purchase agreements	260,677	59,000	144,777	174,900
Early retirement incentive	384,948	1,829,200	234,060	1,980,088
Accumulated vacation pay	98,171	126,699	115,894	108,976
Accumulated sick leave	405,213	93,673	164,926	333,960
	\$ 49,874,853	\$14,433,572	\$ 11,546,685	\$ 52,761,740

LOWELL AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2005

Long-term bonds and installment purchase agreements outstanding at June 30, 2005 are comprised of the following:

	Final Maturity Dates	Interest Rates	Outstanding Balance	Amount Due Within One Year
General Obligation Bonds				
Serial Bonds:				
\$16,545M Crossover Refunding June 3, 1997: Annual maturities of 2,415M to 4,310M	June 3, 2010	5.00 – 6.00	\$16,545,000	\$2,415,000
\$13,015M Building and Site November 1, 2000: Annual maturities of 325M to 650M	Nov. 1, 2011	4.60 – 5.875	1,950,000	325,000
\$3,565M Building and Site March 25, 2005: Annual maturities of 125M to 150M	May 1, 2029	Variable	3,565,000	125,000
\$10,025M Refunding Bonds June 29, 2005: Annual maturities of 35M to 665M	May 1, 2030	3.00 - 5.00	10,025,000	105,000
Capital Appreciation Bonds:				
\$15,598,310 General Obligation October 6, 1992: Annual maturities of 1,490M to 1,645M	Oct. 6, 2020	6.35 – 6.40	15,598,310	—
Durant Non-plaintiff Bonds				
\$595,596 School Improvement November 13, 1998: Annual maturities of 1,490M to 1,645M	May 15, 2013	4.761353	380,506	28,829
Energy Conservation Improvement Bonds				
\$2,300M Energy Conservation Improvement Bonds Annual maturities of 200M to 270M	May 1, 2014	2.00 – 4.25	2,100,000	200,000
Installment Purchase Agreements				
\$279M School Buses July 21, 2002	Jan. 21, 2006	4.95	55,800	55,800
\$110M School Buses August 7, 2003	Jan. 21, 2008	3.25	66,000	22,000
\$59M School Buses July 19, 2004	July 22, 2009	3.50	53,100	11,800
			<u>\$50,338,716</u>	<u>\$3,288,429</u>

LOWELL AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2005

The annual requirements to pay principal and interest on long-term bonds and installment purchase agreements outstanding are as follows:

Year Ended June 30	Principal	Interest	Total
2006	\$ 3,288,429	\$ 1,534,996	\$ 4,823,425
2007	3,573,995	1,457,303	5,031,298
2008	4,065,440	1,262,710	5,328,150
2009	4,534,947	1,064,605	5,599,552
2010	5,203,190	872,808	6,075,998
2011	2,280,738	3,822,470	6,103,208
2012	2,310,202	4,126,261	6,436,463
2013	2,332,412	4,466,778	6,799,190
2014	2,313,292	4,837,736	7,151,028
2015	2,049,303	5,279,425	7,328,728
2016	2,093,790	5,778,272	7,872,062
2017	2,086,499	6,258,124	8,344,623
2018	2,124,757	6,798,396	8,923,153
2019	2,142,135	7,398,693	9,540,828
2020	2,159,587	8,049,158	10,208,745
2021	790,000	333,090	1,123,090
2022	815,000	298,803	1,113,803
2023	810,000	263,228	1,073,228
2024	805,000	227,928	1,032,928
2025	805,000	192,806	997,806
2026	795,000	162,338	957,338
2027	785,000	132,278	917,278
2028	780,000	98,211	878,211
2029	775,000	64,367	839,367
2030	620,000	31,000	651,000
	<u>\$50,338,716</u>	<u>\$64,811,780</u>	<u>\$115,150,496</u>

LOWELL AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2005

On June 29, 2005, the District issued \$10,025,000 in general obligation bonds with an average interest rate of 4.412% to advance refund \$9,475,000 of outstanding 2000 general obligation bonds with a effective interest rate of 5.559% resulting in a net present value savings of \$531,218. The net proceeds (\$10,219,242 after the net premium of \$333,487 and payment of \$139,245 in underwriting fees, insurance and other issuance costs) were deposited with an escrow agent and used to purchase United States government securities. Under the terms of the agreement these securities, together with the interest earned to maturity, will be sufficient to pay principal and interest as it becomes due. This procedure relieves the District from being primarily liable for the debt and the District is virtually assured of not being required to make further payments with respect to the debt. These funds are not commingled with other funds and cannot be redeemed prior to maturity. Any excess funds will be returned to the District upon final payment of principal and interest (Scheduled to be May 1, 2010). This defeasance procedure allows the District to remove the related assets and liabilities from its financial statements, which it has done. The assets, now held by the escrow agent to be used for the remaining principal and interest due of \$12,086,094 on the defeased debt at June 30, 2005 are detailed in the following schedule:

	<u>Cost</u>	<u>Market Value</u>	<u>Par Value</u>
U.S. Government Securities	\$10,219,242	\$10,219,242	\$10,219,242

Note H – Retirement Plan

Substantially all District employees participate in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost sharing, multiple employer defined benefit public employee retirement system governed by the State of Michigan. The District's payroll for employees covered by MPERS for the year ended June 30, 2005 was \$17,813,228. A Basic Plan member may retire at age 55 with 30 or more years of credited service or at age 60 with 10 or more years of credited service. The annual retirement benefit, payable monthly for life, is equal to 1½ percent of a member's final average compensation multiplied by his/her number of years of credited service. Final average compensation is the employee's average salary over the last 5 years of credited service. Vested employees may retire at or after age 55 with 15 years of service and receive reduced retirement benefits.

School districts in the State of Michigan are required to contribute at a rate, annually determined by the State of Michigan, of covered employees' compensation to the MPERS plan. The contribution rate was 12.99% for the fiscal year ending September 30, 2004 and 14.87% for the fiscal year beginning October 1, 2004. The District's contributions to the plan for the fiscal years ended June 30, 2005, 2004 and 2003 were \$2,605,322, \$2,367,869 and \$2,365,627, respectively.

The "actuarial accrued liability" is a standardized disclosure method of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the MPERS' funding status on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among public employee retirement systems and employers.

LOWELL AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2005

The MPSERS does not make separate measurements of assets and actuarial accrued liability for individual schools. The actuarial accrued liability at September 30, 2003 (the latest reporting date available expressed as \$ in millions) for the MPSERS as a whole, determined through an actuarial valuation performed as of that date, was \$44,769. The MPSERS' net assets available for benefits on that date were \$38,726 leaving an unfunded pension benefit obligation of \$6,043. Ten year historical trend information showing the MPSERS' progress in accumulating sufficient assets to pay benefits when due is presented in the September 30, 2004 Annual Report of the MPSERS, which may be obtained by contacting the System at P.O. Box 30171, Lansing, Michigan 48909-7671.

The total actuarial accrued liability (expressed as \$ in millions) increased by \$2,812 from September 30, 2002 to September 30, 2003. Not included in the pension benefit obligation above is any future obligation attributable to health, dental and vision insurance benefits which are funded on a cash disbursement basis. With the passage of Act 279 of 1996, making permanent the cash basis financing of health, dental and vision benefits, actuarially calculated liabilities for these benefits are no longer disclosed on the balance sheets.

Prior to January 1, 1990, participating employees could elect coverage under either the noncontributory Basic Plan or the contributory Member Investment Plan (MIP). Effective January 1, 1990, all new employees are automatically enrolled in MIP. Participants in MIP, who receive benefits in addition to those available under the Basic Plan, contribute a percentage of salary. The graduated contribution rate is based on total wages and is calculated at 3% of the first \$5,000; 3.6% of the next \$10,000; and 4.3% of all wages over \$15,000. MIP members may retire at any age with 30 years of service, or at age 60 with 5 years of service, with benefits based on a final average compensation period of 5 years for members of the Basic Retirement Plan and 3 years for members of the MIP Retirement Plan.

Post-employment benefits for health, dental, and vision insurance are available at retirement through the MPSERS. Retirees contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverage. Required contributions for post-employment health care benefits are included as part of the District's total contribution to the MPSERS as discussed above.

Note I – Risk Management and Benefits

The District is a member of the West Michigan Risk Management Trust, a self-insurance program with districts pooling together to insure property, liability and auto exposure. Premiums from members of the Trust are determined through standard underwriting procedures. The members of the Trust have contributed amounts sufficient to fund individual and aggregate losses up to \$175,000 and \$865,000, respectively, on an annual basis. Excess insurance has been purchased to cover claims exceeding those amounts. A \$1,000 per occurrence deductible for property losses is maintained. The District paid \$147,598 in premiums to the Trust for the year ended June 30, 2005.

Health, life, workers' compensation and other employee insurance is provided by private insurance carriers. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

LOWELL AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2005

Note J – Stewardship, Compliance And Accountability

The following District fund had actual expenditures exceed final budgeted expenditures for the year ended June 30, 2005, as follows:

	Budget	Actual	Unfavorable Variance
Special Revenue Fund:			
Athletics Fund	\$ 667,093	\$ 668,962	\$ 1,869

SUPPLEMENTAL INFORMATION

GENERAL FUND

To account for resources which are traditionally associated with the general operation of the District and not required to be accounted for in another fund.

LOWELL AREA SCHOOLS
General Fund
Comparative Balance Sheet
June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Assets		
Cash equivalents	\$ 1,505,810	\$ 1,558,996
Deposits	1,500,000	-
Receivables:		
Taxes	40,670	70,291
Accounts	57,736	46,759
Due from other funds	5,100	5,000
Due from other governmental units	4,809,468	4,645,217
Inventory	21,831	14,147
Prepaid expenditures	70,000	-
Total Assets	<u><u>\$ 8,010,615</u></u>	<u><u>\$ 6,340,410</u></u>
Liabilities and Fund Balances		
Liabilities		
Accounts payable	\$ 594,948	\$ 773,364
State aid loan payable	2,500,000	278,792
Due to other funds	9,500	-
Due to other governmental units	615,180	503,865
Accrued interest payable	39,141	-
Salaries payable	2,090,813	1,515,253
Deferred revenue	40,670	70,291
Total Liabilities	<u>5,890,252</u>	<u>3,141,565</u>
Fund Balances		
Unreserved:		
Designated for State aid refund	-	70,000
Designated for At Risk program	-	112,371
Undesignated	2,120,363	3,016,474
Total Fund Balances	<u>2,120,363</u>	<u>3,198,845</u>
Total Liabilities and Fund Balances	<u><u>\$ 8,010,615</u></u>	<u><u>\$ 6,340,410</u></u>

LOWELL AREA SCHOOLS
General Fund
Comparative Schedule of Revenues
For the years ended June 30, 2005 and 2004

	2005	2004
Local sources:		
Property taxes:		
Current property taxes	\$ 2,594,040	\$ 2,394,837
Delinquent property taxes	8,983	4,095
Other property taxes	6,591	73,418
Interest on delinquent taxes	10,545	5,597
	<u>2,620,159</u>	<u>2,477,947</u>
Interest earnings:		
Interest on investments	53,421	33,978
Other local revenue:		
Community enrichment fees	112,368	88,024
Summer school fees	26,478	7,058
Driver education fees	59,525	60,830
Transportation reimbursements	10,753	7,828
Third party testing	23,041	24,664
Telephone commission reimbursements	44,665	53,818
Beverage consortium commissions	80,541	42,800
Rental of school facilities	28,033	28,242
Donations	322,740	213,219
Sale of school property	7,480	127,866
Insurance claims	38,297	14,086
Adult/community education reimbursement	42,392	28,797
Refunds of expenditures	24,442	16,426
Miscellaneous	10,991	16,887
	<u>831,746</u>	<u>730,545</u>
Total local sources	3,505,326	3,242,470
State sources:		
State aid	23,795,439	24,333,269
Driver education	1,621	30,735
Technological education	23,224	-
School improvement	2,741	2,678
Other	2,574	10,823
	<u>23,825,599</u>	<u>24,377,505</u>
Total state sources		
Federal sources:		
Title I	164,493	238,466
Title II A	120,035	61,269
Title II D	4,180	5,799
Title V	2,375	3,107
I.D.E.A. program	689,673	555,043
Medicaid - school based	1,398	12,143
Drug free schools	10,771	6,102
Homeland security grant	13,200	-
	<u>1,006,125</u>	<u>881,929</u>
Total federal sources		

(Continued)

LOWELL AREA SCHOOLS
General Fund
Comparative Schedule of Revenues
For the years ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Interdistrict sources:		
Special education - transportation	\$ 859,773	\$ -
Special education - county	1,464,320	995,247
Career preparation	22,500	23,864
Durant settlement reimbursements	12,250	5,687
Medicaid fee for service	18,464	58,454
Total interdistrict sources	<u>2,377,307</u>	<u>1,083,252</u>
Total Revenues	<u><u>\$ 30,714,357</u></u>	<u><u>\$ 29,585,156</u></u>

LOWELL AREA SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2005 and 2004

	2005	2004
Current:		
Instruction:		
Basic programs:		
Elementary:		
Salaries:		
Teachers	\$ 4,210,721	\$ 3,800,150
Other	3,786	5,235
Paraprofessionals	144,451	120,965
Substitutes	58,770	83,096
Employee benefits:		
Employee insurance	727,083	687,402
Early retirement incentive	41,515	-
Special allowances	1,390	1,450
Retirement	647,333	520,852
Social Security	340,490	309,091
Workers' compensation	11,049	-
Unemployment insurance	4,324	-
Cash in lieu of benefits	77,589	55,800
Local travel	1,467	321
Workshops and conferences	-	281
Equipment repair and maintenance	3,733	2,727
Teaching supplies	210,189	236,012
Textbooks	883	7,030
New equipment and furniture	6,934	27,990
	6,491,707	5,858,402
Middle school:		
Salaries:		
Teachers	2,227,992	2,555,516
Other	5,090	4,517
Paraprofessionals	31,570	34,729
Substitutes	40,400	37,315
Employee benefits:		
Employee insurance	460,365	495,385
Early retirement incentive	-	11,890
Special allowances	1,015	1,631
Retirement	336,804	341,152
Social Security	176,181	200,785
Workers' compensation	4,540	-
Cash in lieu of benefits	11,764	16,074
Contracted services	-	12,960
Local travel	92	84
Workshops and conferences	240	260
Equipment repair and maintenance	7,916	2,466
Teaching supplies	162,556	88,680
Textbooks	1,174	9,725
New equipment and furniture	3,106	4,823
	3,470,805	3,817,992
High school:		
Salaries:		
Teachers	3,081,207	2,941,056
Other	47,888	40,154
Paraprofessionals	61,229	63,920
Substitutes	45,827	47,353

(Continued)

LOWELL AREA SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2005 and 2004

	2005	2004
High school: (Continued)		
Employee benefits:		
Employee insurance	\$ 639,102	\$ 608,396
Special allowances	2,475	3,025
Retirement	473,279	399,529
Social Security	248,245	237,039
Workers' compensation	6,258	-
Unemployment insurance	5,732	-
Cash in lieu of benefits	33,622	25,856
Contracted services	4,700	4,452
Local travel	-	344
Workshops and conferences	696	180
Tuition	10,551	14,645
Equipment repair and maintenance	25,803	9,561
Equipment rentals	246	-
Vehicle rental	10,164	6,743
Teaching supplies	216,367	323,709
Textbooks	24,335	12,713
Miscellaneous supplies	946	2,100
New equipment and furniture	28,748	49,713
	<u>4,967,420</u>	<u>4,790,488</u>
Preschool:		
Salaries:		
Teachers	15,428	50,102
Paraprofessionals	6,970	12,655
Substitutes	798	1,183
Employee benefits:		
Employee insurance	1,093	2,432
Retirement	3,314	8,462
Social Security	1,736	5,236
Cash in lieu of benefits	-	3,303
Local travel	77	199
Workshops and conferences	276	-
Teaching supplies	771	981
New equipment and furniture	9,500	-
	<u>39,963</u>	<u>84,553</u>
Summer school:		
Salaries:		
Paraprofessionals	5,681	3,634
Other	32,156	24,545
Employee benefits:		
Retirement	5,325	3,543
Social Security	2,964	2,087
Teaching supplies	4,103	1,210
	<u>50,229</u>	<u>35,019</u>
Total basic programs	15,020,124	14,586,454

(Continued)

LOWELL AREA SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2005 and 2004

	2005	2004
Added needs:		
Special education:		
Salaries:		
Teachers	\$ 1,414,382	\$ 1,363,792
Paraprofessionals	287,688	313,772
Substitutes	59,059	36,366
Employee benefits:		
Employee insurance	319,146	381,405
Early retirement incentive	38,949	-
Retirement	257,098	222,417
Social Security	133,214	132,511
Workers' compensation	2,784	-
Cash in lieu of benefits	13,093	27,406
Purchased services	27,926	20,263
Local travel	457	362
Workshops and conferences	1,408	414
Teaching supplies	41,240	37,009
Textbooks	-	3,782
Miscellaneous supplies	5,164	-
	<u>2,601,608</u>	<u>2,539,499</u>
Compensatory education:		
Salaries:		
Teachers	305,909	235,080
Other	2,488	-
Paraprofessionals	-	125
Substitutes	1,405	70
Employee benefits:		
Employee insurance	71,326	41,607
Retirement	45,304	30,562
Social Security	23,565	18,212
Cash in lieu of benefits	-	3,303
Purchased services	-	300
Workshops and conferences	4,250	1,301
Teaching supplies	15,059	1,736
Miscellaneous	1,125	485
	<u>470,431</u>	<u>332,781</u>
Vocational education:		
Salaries:		
Teachers	\$ 116,073	\$ 120,788
Substitutes	-	1,290
Employee benefits:		
Employee insurance	25,602	23,900
Retirement	16,989	15,858
Social Security	8,931	9,320
Purchased services	6,000	6,000
Local travel	293	682
Workshops and conferences	765	1,022
Teaching supplies	4,596	9,420
New equipment and furniture	1,216	-
	<u>180,465</u>	<u>188,280</u>
Total added needs	3,252,504	3,060,560

(Continued)

LOWELL AREA SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2005 and 2004

	2005	2004
Adult education:		
Basic education:		
Teachers salaries	\$ 12,152	\$ 9,798
Employee benefits:		
Retirement	1,797	1,273
Social Security	929	750
Advertising	186	100
Teaching supplies	757	46
Miscellaneous supplies	77	100
Dues and fees	-	695
Total adult education	15,898	12,762
Pupil services:		
Guidance services:		
Salaries:		
Counselors	296,384	312,983
Other	39,081	38,482
Clerical	61,659	51,586
Substitutes	1,318	150
Employee benefits:		
Employee insurance	70,108	63,866
Retirement	58,220	51,434
Social Security	30,577	30,881
Workers' compensation	657	-
Cash in lieu of benefits	6,817	6,166
Purchased services	19,345	2,685
Local travel	2,650	135
Workshops and conferences	2,595	1,844
Printing and binding	56	5
Equipment repair and maintenance	803	2,750
Teaching supplies	31,259	6,641
Other supplies and materials	3,300	2,875
	624,829	572,483
Occupational therapist services:		
Occupational therapist salary	34,246	43,202
Employee benefits:		
Employee insurance	10,350	9,681
Retirement	5,020	5,612
Social Security	2,361	3,083
Local travel	1,590	366
Teaching supplies	695	383
	54,262	62,327
Psychological services:		
Psychologists salaries	(1,428)	143,503
Employee benefits:		
Employee insurance	-	23,900
Retirement	(176)	18,641
Social Security	(109)	10,938
Local travel	806	758
Workshops and conferences	-	190
Teaching supplies	5,211	3,346
	4,304	201,276

(Continued)

LOWELL AREA SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2005 and 2004

	2005	2004
Speech pathology services:		
Speech pathologists salaries	\$ -	\$ 203,727
Employee benefits:		
Employee insurance	(88)	35,850
Retirement	-	26,464
Social Security	-	15,551
Local travel	1,380	656
Workshops and conferences	-	245
Teaching supplies	1,822	1,515
	<u>3,114</u>	<u>284,008</u>
Social worker services:		
Social workers salaries	11,388	219,603
Employee benefits:		
Employee insurance	(12)	46,306
Retirement	-	28,526
Social Security	871	16,670
Local travel	1,034	280
Teaching supplies	1,182	1,575
	<u>14,463</u>	<u>312,960</u>
Teacher consultant services:		
Teacher consultants salaries	-	125,520
Employee benefits:		
Employee insurance	-	13,549
Retirement	-	16,305
Social Security	-	9,855
Cash in lieu of benefits	-	3,303
Local travel	994	691
Teaching supplies	6,014	3,503
	<u>7,008</u>	<u>172,726</u>
Total pupil services	707,980	1,605,780
Instructional staff services:		
Improvement of instruction:		
Salaries:		
Assistant superintendent	97,522	132,338
Other	174,133	100,521
Clerical	37,412	32,756
Substitutes	35,428	24,822
Employee benefits:		
Employee insurance	54,022	47,081
Retirement	49,628	40,100
Social Security	25,439	23,527
Workers' compensation	624	-
Cash in lieu of benefits	-	1,017
Deferred compensation	4,000	5,136
Contracted services	-	19,087
Instructional program improvement	670	583
Local travel	1,468	741
Workshops and conferences	57,824	48,165
Teaching supplies	103,440	36,955
Office supplies	3,007	133

(Continued)

LOWELL AREA SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2005 and 2004

	2005	2004
Improvement of instruction: (Continued)		
Other supplies and materials	\$ 8,790	\$ 4,166
Dues and fees	5,247	4,313
	<u>658,654</u>	<u>521,441</u>
Library:		
Salaries:		
Media specialists	202,564	197,399
Assistants	72,505	50,183
Employee benefits:		
Employee insurance	32,127	39,217
Retirement	40,301	32,160
Social Security	21,053	18,927
Workers' compensation	440	-
Cash in lieu of benefits	3,590	3,303
Instructional services	3,709	3,651
Local travel	273	455
Workshops and conferences	-	150
Printing and binding	1,361	1,188
Equipment repair and maintenance	6,701	6,195
Library books	22,610	34,564
Periodicals	3,617	3,702
Other supplies and materials	12,663	9,070
	<u>423,514</u>	<u>400,164</u>
Supervision and direction of instruction:		
Salaries:		
Director	80,589	70,680
Clerical	38,904	38,552
Employee benefits:		
Employee insurance	11,918	14,733
Retirement	14,920	14,418
Social Security	8,776	8,542
Workers' compensation	307	-
Cash in lieu of benefits	1,465	1,953
Deferred compensation	2,400	3,200
Local travel	1,328	825
Workshops and conferences	-	225
Teaching supplies	3,112	844
Other supplies and materials	-	22
Dues and fees	84	277
	<u>163,803</u>	<u>154,271</u>
Other instructional staff services:		
Salaries:		
Other	4,399	5,864
Substitutes	75	-
Employee benefits:		
Retirement	665	757
Social Security	343	442
Purchased services	2,066	2,224
Teaching supplies	28	-
	<u>7,576</u>	<u>9,287</u>
Total instructional staff services	1,253,547	1,085,163

(Continued)

LOWELL AREA SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2005 and 2004

	2005	2004
General administrative services:		
Board of education:		
Board members salaries	\$ 2,100	\$ 2,100
Purchased services	46,194	3,089
Legal services	43,484	61,119
Audit services	24,475	25,025
Election workers	5,628	2,272
Local travel	338	1,370
Workshops and conferences	731	1,895
Miscellaneous supplies	1,751	1,355
Dues and fees	6,037	5,649
Miscellaneous	9,767	8,676
	140,505	112,550
Executive administration:		
Salaries:		
Superintendent	\$ 123,497	\$ 119,733
Clerical	101,017	110,154
Employee benefits:		
Employee insurance	43,473	47,530
Retirement	32,260	30,407
Social Security	19,627	16,028
Workers' compensation	365	-
Deferred compensation	5,000	5,000
Purchased services	5,868	921
Workshops and conferences	2,938	1,981
Mailing and postage	8,506	9,029
Public relations	19,402	16,877
Equipment repair and maintenance	2,347	4,913
Rentals	2,003	1,972
Miscellaneous supplies	6,728	5,428
New equipment and furniture	10,739	511
Dues and fees	3,983	3,411
	387,753	373,895
Total general administrative services	528,258	486,445
School administrative services:		
Office of the principal:		
Salaries:		
Principals	792,548	774,774
Clerical	299,322	278,065
Paraprofessionals	114,660	108,614
Employee benefits:		
Employee insurance	243,270	222,733
Retirement	180,072	154,906
Social Security	91,942	93,951
Workers' compensation	2,662	-
Cash in lieu of benefits	13,406	5,726
Deferred compensation	36,000	36,000
Contracted services	16,898	-

(Continued)

LOWELL AREA SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2005 and 2004

	2005	2004
Office of the principal: (Continued)		
Local travel	\$ 6,186	\$ 5,348
Workshops and conferences	622	425
Mailing and postage	15,586	17,419
Equipment repair and maintenance	11,634	22,837
Office supplies	35,901	35,152
Other supplies and materials	4,788	4,665
New equipment and furniture	-	2,170
Dues and fees	5,667	3,591
Miscellaneous	1,725	2,650
	<hr/>	<hr/>
Total school administrative services	1,872,889	1,769,026
Business services:		
Fiscal services:		
Salaries:		
Associate superintendent	93,925	91,500
Accounting	187,390	152,311
Employee benefits:		
Employee insurance	84,356	54,720
Deferred compensation	6,000	6,000
Retirement	40,442	32,450
Social Security	20,908	19,323
Workers' compensation	732	-
Cash in lieu of benefits	2,593	-
Purchased services	39,936	36,017
Local travel	1,101	876
Workshops and conferences	1,668	1,138
Equipment repair and maintenance	(3,971)	(1,209)
Miscellaneous supplies	2,554	(2,289)
Dues and fees	1,531	984
Miscellaneous	1,779	1,381
	<hr/>	<hr/>
	480,944	393,202
Internal services:		
Other salaries	34,965	34,272
Employee benefits:		
Employee insurance	12,930	11,084
Retirement	4,761	4,528
Social Security	2,663	2,603
Workers' compensation	946	-
	<hr/>	<hr/>
	56,265	52,487
Other business services:		
Workers' compensation insurance	-	71,156
Unemployment compensation	-	680
Student insurance	1,906	1,813
Interest expense	39,141	20,400
Dues and fees	10,372	4,176
Tax refunds	73,471	15,931
	<hr/>	<hr/>
	124,890	114,156
	<hr/>	<hr/>
Total business services	662,099	559,845

(Continued)

LOWELL AREA SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2005 and 2004

	2005	2004
Operation and maintenance services:		
Operation and maintenance:		
Salaries:		
Director	\$ 10,000	\$ 10,000
Custodial	719,687	659,853
Other	118,179	142,807
Employee benefits:		
Employee insurance	260,831	247,655
Retirement	122,266	105,792
Social Security	65,283	62,436
Workers' compensation	22,831	-
Cash in lieu of benefits	6,142	5,964
Purchased services	111,346	-
Workshops and conferences	101	-
Telephone	78,170	65,956
Water and sewer	83,445	92,859
Waste and trash disposal	23,705	36,759
Property and liability insurance	147,598	130,558
Land/building repair and maintenance	258,717	244,941
Equipment repair and maintenance	16,140	7,328
Vehicle repair and maintenance	4,058	7,609
Heating	238,412	166,678
Electricity	448,320	500,903
Other supplies and materials	49,259	64,549
New equipment and furniture	18,820	206,122
	<u>2,803,310</u>	<u>2,758,769</u>
Security services:		
Security salaries	77,439	61,853
Employee benefits:		
Employee insurance	12,456	11,069
Retirement	11,004	8,035
Social Security	5,907	4,709
Workers' compensation	1,846	-
Purchased services	9,892	-
Local travel	608	623
Other supplies and materials	6,857	4,356
New equipment and furniture	9,760	190
	<u>135,769</u>	<u>90,835</u>
Total operation and maintenance services	2,939,079	2,849,604
Pupil transportation services:		
Pupil transportation:		
Salaries:		
Director	56,779	53,298
Drivers	551,656	698,507
Mechanics	83,586	78,688
Clerical	52,284	60,215
Other	6,276	2,492
Longevity payments	4,660	5,310

(Continued)

LOWELL AREA SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2005 and 2004

	2005	2004
Pupil transportation: (Continued)		
Employee benefits:		
Employee insurance	\$ 247,875	\$ 218,592
Medical reimbursements	2,887	3,653
Retirement	108,354	118,144
Social Security	58,076	70,010
Workers' compensation	21,899	-
Cash in lieu of benefits	4,547	9,163
Deferred compensation	4,000	4,000
Local travel	2,400	2,400
Workshops and conferences	2,415	1,920
Telephone	128	1,959
Equipment repair and maintenance	4,264	1,525
Vehicle repair and maintenance	82,773	96,527
Other purchased services	5,722	7,372
Gasoline, oil and grease	154,725	125,190
Tires, tubes and batteries	12,692	16,404
Office supplies	1,247	686
Miscellaneous hardware and tools	890	837
Other supplies and materials	12,407	8,799
New buses	59,917	192,854
Total pupil transportation services	1,542,459	1,774,705
Central services:		
Planning and evaluation:		
Research salary	12,600	7,000
Employee benefits:		
Retirement	-	650
Social Security	964	474
Workers' compensation	318	-
Contracted services	71,995	48,750
Workshops and conferences	1,068	478
Other supplies and materials	2,386	14,936
	89,331	72,288
Technology services:		
Technicians salaries	206,515	175,698
Employee benefits:		
Employee insurance	55,905	54,414
Retirement	26,809	22,823
Social Security	15,576	13,422
Workers' compensation	5,148	-
Contracted services	4,680	10,221
Local travel	3,891	2,500
Workshops and conferences	505	404
Internet access	61,871	66,098
Office supplies	105	-
Other supplies and materials	78,455	58,016
New equipment and furniture	89,967	46,004
Dues and fees	98	65
	549,525	449,665

(Continued)

LOWELL AREA SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2005 and 2004

	2005	2004
Other central services:		
Other administrative salaries	\$ 6,293	\$ 5,574
Social Security	481	426
	<u>6,774</u>	<u>6,000</u>
Total central services	645,630	527,953
Community services:		
Community services direction:		
Director salary	900	900
Employee benefits:		
Retirement	130	117
Social Security	68	68
Printing and binding	37,093	31,270
	<u>38,191</u>	<u>32,355</u>
Community recreation:		
Salaries:		
Director	44,697	42,179
Teachers	175	100
Coaches	18,936	13,410
Students	2,510	2,152
Employee benefits:		
Employee insurance	17,113	11,099
Retirement	9,107	7,382
Social Security	4,839	4,287
Workers' compensation	4,329	-
Purchased services	21,995	23,165
Printing and binding	87	255
Equipment repair and maintenance	14,041	12,399
Teaching supplies	690	527
Miscellaneous supplies	7,351	8,172
New equipment and furniture	37,738	52,180
	<u>183,608</u>	<u>177,307</u>
Community activities:		
Workshops and conferences	1,732	-
Teaching supplies	12,563	10,858
	<u>14,295</u>	<u>10,858</u>
Custody and care of children:		
Salaries:		
Director	54,152	51,080
Teachers	646	-
Paraprofessionals	37,782	38,200
Employee benefits:		
Employee insurance	10,530	11,024
Retirement	13,314	11,598
Social Security	7,070	6,807
Printing and binding	-	71
Teaching supplies	19,691	17,916
Miscellaneous supplies	4,091	-
New equipment and furniture	-	1,519
	<u>147,276</u>	<u>138,215</u>

(Continued)

LOWELL AREA SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Other community services:		
Testing salaries	\$ 12,493	\$ 12,900
Employee benefits:		
Employee insurance	1,789	1,676
Retirement	930	967
Purchased services	7,678	2,940
Miscellaneous supplies	183	15,103
	<u>23,073</u>	<u>33,586</u>
Total community services	406,443	392,321
Debt service:		
Principal repayment	345,373	178,762
Interest expense	71,109	17,968
Total debt service	416,482	196,730
Interdistrict:		
Special education tuition	295,002	441,596
Special education transportation	973,343	618,449
Special education itinerants	1,011,135	-
Total interdistrict	<u>2,279,480</u>	<u>1,060,045</u>
Total Expenditures	<u><u>\$ 31,542,872</u></u>	<u><u>\$ 29,967,393</u></u>

NONMAJOR FUNDS

LOWELL AREA SCHOOLS
Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2005

	Special Revenue	
	Food Service	Athletics
Assets		
Cash equivalents	\$ (766)	\$ 7,665
Deposits	-	55,000
Investments	-	-
Receivables:		
Taxes	-	-
Accounts	4,338	-
Due from other funds	-	-
Due from other governmental units	10,503	-
Inventory	18,585	-
Total Assets	\$ 32,660	\$ 62,665
Liabilities and Fund Balances		
Liabilities		
Accounts payable	\$ 25,908	\$ 11,461
Due to other governmental units	456	1,967
Salaries payable	2,025	8,732
Deferred revenue	-	-
Total Liabilities	28,389	22,160
Fund balances		
Reserved for debt service	-	-
Reserved for capital outlay	-	-
Unreserved:		
Undesignated	4,271	40,505
Total Fund Balances	4,271	40,505
Total Liabilities and Fund Balances	\$ 32,660	\$ 62,665

Debt Service			Capital Projects			Total
1990	2000	2004	2000 Construction	2004 Construction	2004 Energy Conservation	
\$ 27,350	\$ 5,257	\$ 25,348	\$ -	\$ 230,287	\$ -	\$ 295,141
200,000	90,000	-	-	-	-	345,000
-	-	33,208	-	-	-	33,208
11,052	3,775	116	-	-	-	14,943
-	-	-	-	-	-	4,338
-	-	-	-	9,500	-	9,500
-	-	-	-	-	-	10,503
-	-	-	-	-	-	18,585
<u>\$ 238,402</u>	<u>\$ 99,032</u>	<u>\$ 58,672</u>	<u>\$ -</u>	<u>\$ 239,787</u>	<u>\$ -</u>	<u>\$ 731,218</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 37,369
60	18	2	-	-	-	2,503
-	-	-	-	-	-	10,757
11,052	3,775	116	-	-	-	14,943
<u>11,112</u>	<u>3,793</u>	<u>118</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>65,572</u>
227,290	95,239	58,554	-	-	-	381,083
-	-	-	-	239,787	-	239,787
-	-	-	-	-	-	44,776
<u>227,290</u>	<u>95,239</u>	<u>58,554</u>	<u>-</u>	<u>239,787</u>	<u>-</u>	<u>665,646</u>
<u>\$ 238,402</u>	<u>\$ 99,032</u>	<u>\$ 58,672</u>	<u>\$ -</u>	<u>\$ 239,787</u>	<u>\$ -</u>	<u>\$ 731,218</u>

LOWELL AREA SCHOOLS
Combining Schedule of Revenues, Expenditures and Changes in
Fund Balances - Nonmajor Governmental Funds
For the year ended June 30, 2005

	Special Revenue	
	Food Service	Athletics
Revenues		
Local sources:		
Property taxes	\$ -	\$ -
Interest earnings	353	1,388
Sales and admissions	768,405	401,616
Total local sources	768,758	403,004
State sources	75,076	-
Federal sources	309,901	-
Total Revenues	1,153,735	403,004
Expenditures		
Current:		
Food service	1,178,004	-
Athletics	-	668,962
Capital outlay	-	-
Debt service:		
Principal repayment	-	-
Interest and fiscal charges	-	-
Bond issuance costs	-	-
Underwriter's discount	-	-
Total Expenditures	1,178,004	668,962
Excess (Deficiency) of Revenues		
Over Expenditures	(24,269)	(265,958)
Other Financing Sources (Uses)		
Bonds issued	-	-
Refunding bonds issued	-	-
Bond premium	-	-
Transfers in	7,350	291,145
Other	-	-
Payments to escrow agent	-	-
Total Other Financing Sources (Uses)	7,350	291,145
Net Change in Fund Balances	(16,919)	25,187
Fund Balances, July 1	21,190	15,318
Fund Balances, June 30	\$ 4,271	\$ 40,505

Debt Service			Capital Projects			Total
1990	2000	2004	2000 Construction	2004 Construction	2004 Energy Conservation	
\$ 3,117,643	\$ 959,346	\$ 119,793	\$ -	\$ -	\$ -	\$ 4,196,782
32,295	6,179	281	632	10,917	12,229	64,274
-	-	-	-	-	-	1,170,021
3,149,938	965,525	120,074	632	10,917	12,229	5,431,077
-	-	-	-	-	-	75,076
-	-	-	-	-	-	309,901
3,149,938	965,525	120,074	632	10,917	12,229	5,816,054
-	-	-	-	-	-	1,178,004
-	-	-	-	-	-	668,962
-	-	-	67,263	1,706,595	2,280,618	4,054,476
887,028	325,000	-	-	-	-	1,212,028
2,308,895	636,438	94,728	-	-	-	3,040,061
-	89,120	-	-	-	33,860	122,980
-	50,125	-	-	-	23,000	73,125
3,195,923	1,100,683	94,728	67,263	1,706,595	2,337,478	10,349,636
(45,985)	(135,158)	25,346	(66,631)	(1,695,678)	(2,325,249)	(4,533,582)
-	-	-	-	-	2,300,000	2,300,000
-	10,025,000	-	-	-	-	10,025,000
-	333,487	-	-	-	25,249	358,736
-	-	-	-	-	-	298,495
-	-	-	-	1,457	-	1,457
-	(10,219,242)	-	-	-	-	(10,219,242)
-	139,245	-	-	1,457	2,325,249	2,764,446
(45,985)	4,087	25,346	(66,631)	(1,694,221)	-	(1,769,136)
273,275	91,152	33,208	66,631	1,934,008	-	2,434,782
\$ 227,290	\$ 95,239	\$ 58,554	\$ -	\$ 239,787	\$ -	\$ 665,646

LOWELL AREA SCHOOLS
Food Service Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
For the year ended June 30, 2005

	2005			2004
	Budget	Actual	Variance - Positive (Negative)	Actual
Revenues				
Local sources:				
Interest earnings	\$ 388	\$ 353	\$ (35)	\$ 260
Sales and admissions	767,977	768,405	428	781,375
Total local sources	768,365	768,758	393	781,635
State sources	82,426	75,076	(7,350)	66,448
Federal sources	309,370	309,901	531	330,009
Total Revenues	1,160,161	1,153,735	(6,426)	1,178,092
Expenditures				
Current:				
Food service	1,180,102	1,178,004	2,098	1,222,937
Excess (Deficiency) of Revenues Over Expenditures	(19,941)	(24,269)	(4,328)	(44,845)
Other Financing Sources				
Transfers in	-	7,350	7,350	-
Net Change in Fund Balances	(19,941)	(16,919)	3,022	(44,845)
Fund Balances, July 1	21,190	21,190	-	66,035
Fund Balances, June 30	\$ 1,249	\$ 4,271	\$ 3,022	\$ 21,190

LOWELL AREA SCHOOLS
Athletics Special Revenue Fund
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
For the year ended June 30, 2005

	2005			2004
	Budget	Actual	Variance - Positive (Negative)	Actual
Revenues				
Local sources:				
Interest earnings	\$ 1,327	\$ 1,388	\$ 61	\$ 157
Sales and admissions	401,614	401,616	2	260,135
Total Revenues	402,941	403,004	63	260,292
Expenditures				
Current:				
Athletics	667,093	668,962	(1,869)	551,564
Excess (Deficiency) of Revenues Over Expenditures	(264,152)	(265,958)	(1,806)	(291,272)
Other Financing Sources				
Transfers in	291,145	291,145	-	306,468
Net Change in Fund Balances	26,993	25,187	(1,806)	15,196
Fund Balances, July 1	15,318	15,318	-	122
Fund Balances, June 30	<u>\$ 42,311</u>	<u>\$ 40,505</u>	<u>\$ (1,806)</u>	<u>\$ 15,318</u>

SPECIAL REVENUE FUNDS

Food Service—to account for monies received from food service activities and federal subsidies for use in administering the hot lunch program of the District.

Athletics—to account for activity receipts and General Fund contributions used in administering the athletic program of the District.

LOWELL AREA SCHOOLS
Food Service Special Revenue Fund
Comparative Balance Sheet
June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Assets		
Cash equivalents	\$ (766)	\$ 2,035
Accounts receivable	4,338	5,707
Due from other governmental units	10,503	9,424
Inventory	<u>18,585</u>	<u>29,599</u>
Total Assets	<u><u>\$ 32,660</u></u>	<u><u>\$ 46,765</u></u>
 Liabilities and Fund Balances		
Liabilities		
Accounts payable	\$ 25,908	\$ 25,254
Due to other governmental units	456	55
Salaries payable	<u>2,025</u>	<u>266</u>
Total Liabilities	<u>28,389</u>	<u>25,575</u>
Fund Balances		
Unreserved:		
Undesignated	<u>4,271</u>	<u>21,190</u>
Total Liabilities and Fund Balance	<u><u>\$ 32,660</u></u>	<u><u>\$ 46,765</u></u>

LOWELL AREA SCHOOLS
Food Service Special Revenue Fund
Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances
For the years ended June 30, 2005 and 2004

	2005	2004
Revenues		
Local sources:		
Sales and admissions:		
Children's lunches	\$ 746,634	\$ 766,977
Adult lunches	21,771	14,398
	<u>768,405</u>	<u>781,375</u>
Interest earnings:		
Interest on investments	353	260
Total local sources	<u>768,758</u>	<u>781,635</u>
State sources	75,076	66,448
Federal sources	<u>309,901</u>	<u>330,009</u>
Total Revenues	<u>1,153,735</u>	<u>1,178,092</u>
Expenditures		
Current:		
Food service:		
Salaries:		
Food service	336,766	366,776
Drivers	8,798	6,909
Employee benefits:		
Employee insurance	57,021	80,189
Retirement	50,488	48,539
Social Security	26,304	28,506
Workers' compensation insurance	-	11,563
Purchased services	122,158	116,855
Audit services	1,625	450
Workshops and conferences	62	220
Equipment repair and maintenance	11,659	13,980
Food	500,039	493,254
Other supplies and materials	53,274	46,239
New equipment and furniture	<u>9,810</u>	<u>9,457</u>
Total Expenditures	<u>1,178,004</u>	<u>1,222,937</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(24,269)</u>	<u>(44,845)</u>
Other Financing Sources		
Transfers in	<u>7,350</u>	<u>-</u>
Net Change in Fund Balances	(16,919)	(44,845)
Fund Balances, July 1	<u>21,190</u>	<u>66,035</u>
Fund Balances, June 30	<u><u>\$ 4,271</u></u>	<u><u>\$ 21,190</u></u>

LOWELL AREA SCHOOLS
Athletics Special Revenue Fund
Comparative Balance Sheet
June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Assets		
Cash equivalents	\$ 7,665	\$ 18,723
Deposits	55,000	-
Accounts receivable	<u>-</u>	<u>160</u>
Total Assets	<u><u>\$ 62,665</u></u>	<u><u>\$ 18,883</u></u>
 Liabilities and Fund Balances		
Liabilities		
Accounts payable	\$ 11,461	\$ 1,051
Due to other governmental units	1,967	430
Salaries payable	<u>8,732</u>	<u>2,084</u>
Total Liabilities	<u>22,160</u>	<u>3,565</u>
Fund Balances		
Unreserved:		
Undesignated	<u>40,505</u>	<u>15,318</u>
Total Liabilities and Fund Balance	<u><u>\$ 62,665</u></u>	<u><u>\$ 18,883</u></u>

LOWELL AREA SCHOOLS
Athletics Special Revenue Fund
Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances
For the years ended June 30, 2005 and 2004

	2005	2004
Revenues		
Local sources:		
Sales and admissions:		
Admissions	\$ 143,520	\$ 115,899
Sports fees and charges	68,582	70,371
Tournament fees	130,895	46,907
Donations	56,875	26,958
Other	1,744	-
	401,616	260,135
Interest earnings:		
Interest on investments	1,388	157
Total Revenues	403,004	260,292
Expenditures		
Current:		
Athletics:		
Salaries:		
Athletic director	72,223	69,582
Trainer	13,360	12,900
Coaches	195,227	188,952
Drivers	15,383	16,914
Clerical	16,753	16,327
Custodial	1,750	1,758
Temporary	815	538
Other	12,322	8,953
Employee benefits:		
Employee insurance	20,632	19,909
Retirement	47,695	40,446
Social Security	24,802	24,433
Deferred compensation	4,000	4,000
Officials	24,886	28,112
Workshops and conferences	125	240
Mailing and postage	920	948
Miscellaneous supplies	97,297	80,959
New furniture and equipment	15,646	6,051
Tournament expense	105,126	30,542
Total Expenditures	668,962	551,564
Excess (Deficiency) of Revenues Over Expenditures	(265,958)	(291,272)
Other Financing Sources		
Transfers in	291,145	306,468
Net Change in Fund Balances	25,187	15,196
Fund Balances, July 1	15,318	122
Fund Balances, June 30	\$ 40,505	\$ 15,318

DEBT SERVICE FUNDS

Debt Service Funds—To accumulate property tax revenues and interest earnings for repayment of the bond issues of the District used to finance new building construction projects.

LOWELL AREA SCHOOLS
Debt Service Funds
Combining Balance Sheet
June 30, 2005

	<u>1990</u>	<u>2000</u>	<u>2004</u>
Assets			
Cash equivalents	\$ 27,350	\$ 5,257	\$ 25,348
Deposits	200,000	90,000	-
Investments	-	-	33,208
Taxes receivable	<u>11,052</u>	<u>3,775</u>	<u>116</u>
Total Assets	<u><u>\$ 238,402</u></u>	<u><u>\$ 99,032</u></u>	<u><u>\$ 58,672</u></u>
 Liabilities and Fund Balances			
Liabilities			
Due to other governmental units	\$ 60	\$ 18	\$ 2
Deferred revenue	<u>11,052</u>	<u>3,775</u>	<u>116</u>
Total Liabilities	<u>11,112</u>	<u>3,793</u>	<u>118</u>
Fund Balances			
Reserved for debt service	<u>227,290</u>	<u>95,239</u>	<u>58,554</u>
Total Liabilities and Fund Balances	<u><u>\$ 238,402</u></u>	<u><u>\$ 99,032</u></u>	<u><u>\$ 58,672</u></u>

Totals	
2005	2004
\$ 57,955	\$ 364,427
290,000	-
33,208	33,208
14,943	26,472
<u>\$ 396,106</u>	<u>\$ 424,107</u>
\$ 80	\$ -
14,943	26,472
<u>15,023</u>	<u>26,472</u>
<u>381,083</u>	<u>397,635</u>
<u>\$ 396,106</u>	<u>\$ 424,107</u>

LOWELL AREA SCHOOLS
Debt Service Funds
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
For the year ended June 30, 2005

	1990	2000	2004
Revenues			
Local sources:			
Property taxes:			
Current property taxes	\$ 3,094,039	\$ 952,013	\$ 119,002
Industrial facilities taxes	13,639	4,197	524
Delinquent property taxes	2,632	866	-
Interest on delinquent taxes	7,037	2,181	256
Other taxes	296	89	11
	<u>3,117,643</u>	<u>959,346</u>	<u>119,793</u>
Interest earnings:			
Interest on investments	32,295	6,179	281
	<u>32,295</u>	<u>6,179</u>	<u>281</u>
Total Revenues	<u>3,149,938</u>	<u>965,525</u>	<u>120,074</u>
Expenditures			
Debt service:			
Principal repayment	887,028	325,000	-
Interest and fiscal charges:			
Interest expense	2,307,972	636,131	75,712
Paying agent fees	9	11	18,999
Tax refunds	914	296	17
Bond issuance costs	-	89,120	-
Underwriter's discount	-	50,125	-
	<u>-</u>	<u>50,125</u>	<u>-</u>
Total Expenditures	<u>3,195,923</u>	<u>1,100,683</u>	<u>94,728</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(45,985)</u>	<u>(135,158)</u>	<u>25,346</u>
Other Financing Sources			
Refunding bonds issued	-	10,025,000	-
Bond premium	-	333,487	-
Transfers in	-	-	-
Payments to escrow agent	-	(10,219,242)	-
	<u>-</u>	<u>(10,219,242)</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>139,245</u>	<u>-</u>
Net Change in Fund Balances	<u>(45,985)</u>	<u>4,087</u>	<u>25,346</u>
Fund Balances, July 1	<u>273,275</u>	<u>91,152</u>	<u>33,208</u>
Fund Balances, June 30	<u><u>\$ 227,290</u></u>	<u><u>\$ 95,239</u></u>	<u><u>\$ 58,554</u></u>

Totals	
2005	2004
\$ 4,165,054	\$ 3,880,980
18,360	17,497
3,498	2,071
9,474	6,334
396	-
<u>4,196,782</u>	<u>3,906,882</u>
38,755	20,030
<u>4,235,537</u>	<u>3,926,912</u>
1,212,028	1,190,246
3,019,815	2,750,673
19,019	3,150
1,227	1,181
89,120	-
50,125	-
<u>4,391,334</u>	<u>3,945,250</u>
<u>(155,797)</u>	<u>(18,338)</u>
10,025,000	-
333,487	-
-	(33,208)
<u>10,219,242</u>	<u>-</u>
<u>(139,245)</u>	<u>(33,208)</u>
(16,552)	14,870
<u>397,635</u>	<u>382,765</u>
<u>\$ 381,083</u>	<u>\$ 397,635</u>

CAPITAL PROJECTS FUNDS

2000 & 2004 Construction—to account for bond proceeds used to finance building construction and renovation projects.

2004 Energy Conservation Bond —to account for bond proceeds used to finance energy conservation improvement projects.

LOWELL AREA SCHOOLS
2000 Construction Capital Projects Fund
Comparative Balance Sheet
June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Assets		
Investments	<u>\$ -</u>	<u>\$ 250,594</u>
Liabilities and Fund Balances		
Liabilities		
Due to other governmental units	<u>\$ -</u>	<u>\$ 183,963</u>
Fund Balances		
Reserved for capital outlay	<u>-</u>	<u>66,631</u>
Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ 250,594</u>

LOWELL AREA SCHOOLS
2000 Construction Capital Projects Fund
Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances
For the years ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Revenues		
Interest earnings:		
Interest on investments	\$ 632	\$ 164,159
Expenditures		
Capital outlay:		
Construction manager	-	183,628
Architect fees	-	64,705
Professional services	32,572	80,538
Insurance	600	3,702
Land	-	7,560
Buildings and additions	15,814	5,249,510
Land improvements	-	64,393
Equipment and furniture	18,267	285,067
Arbitrage rebate	-	183,963
Bank fees	10	1,263
Total Expenditures	<u>67,263</u>	<u>6,124,329</u>
Net Change in Fund Balances	(66,631)	(5,960,170)
Fund Balances, July 1	<u>66,631</u>	<u>6,026,801</u>
Fund Balances, June 30	<u><u>\$ -</u></u>	<u><u>\$ 66,631</u></u>

LOWELL AREA SCHOOLS
2004 Construction Capital Projects Fund
Comparative Balance Sheet
June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Assets		
Cash equivalents	\$ 230,287	\$ 1,934,008
Due from other funds	<u>9,500</u>	<u>-</u>
Total Assets	<u><u>\$ 239,787</u></u>	<u><u>\$ 1,934,008</u></u>
Liabilities and Fund Balances		
Liabilities	\$ -	\$ -
Fund Balances		
Reserved for capital outlay	<u>239,787</u>	<u>1,934,008</u>
Total Liabilities and Fund Balance	<u><u>\$ 239,787</u></u>	<u><u>\$ 1,934,008</u></u>

LOWELL AREA SCHOOLS
2004 Construction Capital Projects Fund
Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances
For the years ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Revenues		
Interest earnings:		
Interest on deposits	\$ 10,917	\$ 10,041
Expenditures		
Capital outlay:		
Construction manager	12,972	38,713
Consulting services	27,416	-
Architect fees	9,305	14,254
Buildings and additions	1,178,083	1,122,825
Site improvements	1,911	-
Equipment and furniture	476,086	320,764
Bond issuance costs	-	111,179
Bank fees	822	90
Total Expenditures	<u>1,706,595</u>	<u>1,607,825</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(1,695,678)</u>	<u>(1,597,784)</u>
Other Financing Sources (Uses)		
Bonds issued	-	3,565,000
Other	1,457	-
Transfers out	-	(33,208)
Total Other Financing Sources (Uses)	<u>1,457</u>	<u>3,531,792</u>
Net Change in Fund Balances	<u>(1,694,221)</u>	<u>1,934,008</u>
Fund Balances, July 1	<u>1,934,008</u>	<u>-</u>
Fund Balances, June 30	<u><u>\$ 239,787</u></u>	<u><u>\$ 1,934,008</u></u>

LOWELL AREA SCHOOLS
2004 Energy Conservation Bond Capital Projects Fund
Comparative Balance Sheet
June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Assets	<u>\$ -</u>	<u>\$ -</u>
Liabilities and Fund Balances		
Liabilities	<u>\$ -</u>	<u>\$ -</u>
Fund Balances		
Reserved for capital outlay	<u>-</u>	<u>-</u>
Total Liabilities and Fund Balance	<u>\$ -</u>	<u>\$ -</u>

LOWELL AREA SCHOOLS
2004 Energy Conservation Bond Capital Projects Fund
Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances
For the years ended June 30, 2005 and 2004

	2005	2004
Revenues		
Interest earnings:		
Interest on deposits	\$ 12,229	\$ -
Expenditures		
Capital outlay:		
Buildings and additions	2,280,340	-
Bank fees	278	-
	2,280,618	-
Debt Service:		
Bond issuance costs	33,860	-
Underwriter's discount	23,000	-
	56,860	-
Total Expenditures	2,337,478	-
Excess (Deficiency) of Revenues Over Expenditures	(2,325,249)	-
Other Financing Sources		
Bonds issued	2,300,000	-
Bond premium	25,249	-
Total Other Financing Sources	2,325,249	-
Net Change in Fund Balances	-	-
Fund Balances, July 1	-	-
Fund Balances, June 30	\$ -	\$ -

AGENCY FUND

Student Activities—to account for the collection and disbursements of monies used by the school activity clubs and groups.

LOWELL AREA SCHOOLS
Student Activities Agency Fund
Statement of Changes in Assets and Liabilities
For the year ended June 30, 2005

	<u>Balances July 1, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances June 30, 2005</u>
Assets				
Cash equivalents	\$ 242,153	\$ 546,984	\$ 611,007	\$ 178,130
Deposits	<u>-</u>	<u>101,203</u>	<u>-</u>	<u>101,203</u>
	<u>\$ 242,153</u>	<u>\$ 648,187</u>	<u>\$ 611,007</u>	<u>\$ 279,333</u>
Liabilities				
Due to student groups	<u>\$ 242,153</u>	<u>\$ 565,208</u>	<u>\$ 528,028</u>	<u>\$ 279,333</u>

OTHER INFORMATION

LOWELL AREA SCHOOLS
Summary of 2004 Taxes Levied and Collected
For the year ended June 30, 2005

	County of Kent				
	City of Lowell	Ada	Bowne	Cannon	Cascade
Taxable Valuations					
Operating	\$50,947,840	\$11,512,972	\$16,096,861	\$ 892,173	\$ 5,723,457
Debt Service	95,620,499	66,854,304	44,810,726	10,161,434	23,707,968
Rates (Mills)					
General Fund					
1990 Debt Service Fund					
2000 Debt Service Fund					
2004 Debt Service Fund					
Taxes Levied 2004 Rolls					
General Fund	\$ 839,231	\$ 202,101	\$ 136,824	\$ 15,661	\$ 100,471
1990 Debt Service Fund	498,605	347,638	233,703	52,838	123,280
2000 Debt Service Fund	153,417	106,965	71,909	16,258	37,932
2004 Debt Service Fund	19,177	13,371	8,988	2,032	4,742
	<u>1,510,430</u>	<u>670,075</u>	<u>451,424</u>	<u>86,789</u>	<u>266,425</u>
Taxes Uncollected 2004 Rolls					
General Fund	1,253	969	12	-	779
1990 Debt Service Fund	371	287	3	-	231
2000 Debt Service Fund	114	88	1	-	71
2004 Debt Service Fund	14	11	-	-	9
	<u>1,752</u>	<u>1,355</u>	<u>16</u>	<u>-</u>	<u>1,090</u>
Taxes Collected 2004 Rolls					
General Fund	837,978	201,132	136,812	15,661	99,692
1990 Debt Service Fund	498,234	347,351	233,700	52,838	123,049
2000 Debt Service Fund	153,303	106,877	71,908	16,258	37,861
2004 Debt Service Fund	19,163	13,360	8,988	2,032	4,733
	<u>1,508,678</u>	<u>668,720</u>	<u>451,408</u>	<u>86,789</u>	<u>265,335</u>
Delinquent Taxes Collected					
General Fund	2,790	-	-	-	2,886
1990 Debt Service Fund	839	-	-	-	812
2000 Debt Service Fund	249	-	-	-	310
	<u>3,878</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,008</u>
Total Taxes Collected					
General Fund	840,768	201,132	136,812	15,661	102,578
1990 Debt Service Fund	499,073	347,351	233,700	52,838	123,861
2000 Debt Service Fund	153,552	106,877	71,908	16,258	38,171
2004 Debt Service Fund	19,163	13,360	8,988	2,032	4,733
	<u>\$ 1,512,556</u>	<u>\$ 668,720</u>	<u>\$ 451,408</u>	<u>\$ 86,789</u>	<u>\$ 269,343</u>

(Continued)

Townships			County of Ionia			Total
Grattan	Lowell	Vergennes	Boston	Campbell	Keene	
\$ 8,232,439	\$ 31,424,868	\$ 37,514,577	\$ 2,676,081	\$ 121,965	\$ 1,181,290	\$166,324,523
47,104,712	136,833,577	139,786,392	14,768,744	1,056,981	13,025,988	593,731,325
						17.5544
						5.2000
						1.6000
						0.2000
						<u>24.5544</u>
\$ 144,513	\$ 552,372	\$ 537,353	\$ 53,023	\$ 1,956	\$ 20,737	\$ 2,604,242
244,938	711,739	726,878	84,050	5,658	67,735	3,097,062
75,366	218,997	223,655	25,861	1,741	20,842	952,943
9,421	27,374	27,957	3,233	218	2,605	119,118
<u>474,238</u>	<u>1,510,482</u>	<u>1,515,843</u>	<u>166,167</u>	<u>9,573</u>	<u>111,919</u>	<u>6,773,365</u>
-	4,930	2,259	-	-	-	10,202
-	1,461	670	-	-	-	3,023
-	450	206	-	-	-	930
-	56	26	-	-	-	116
<u>-</u>	<u>6,897</u>	<u>3,161</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,271</u>
144,513	547,442	535,094	53,023	1,956	20,737	2,594,040
244,938	710,278	726,208	84,050	5,658	67,735	3,094,039
75,366	218,547	223,449	25,861	1,741	20,842	952,013
9,421	27,318	27,931	3,233	218	2,605	119,002
<u>474,238</u>	<u>1,503,585</u>	<u>1,512,682</u>	<u>166,167</u>	<u>9,573</u>	<u>111,919</u>	<u>6,759,094</u>
-	2,590	-	717	-	-	8,983
-	772	-	209	-	-	2,632
-	243	-	64	-	-	866
<u>-</u>	<u>3,605</u>	<u>-</u>	<u>990</u>	<u>-</u>	<u>-</u>	<u>12,481</u>
144,513	550,032	535,094	53,740	1,956	20,737	2,603,023
244,938	711,050	726,208	84,259	5,658	67,735	3,096,671
75,366	218,790	223,449	25,925	1,741	20,842	952,879
9,421	27,318	27,931	3,233	218	2,605	119,002
<u>\$ 474,238</u>	<u>\$ 1,507,190</u>	<u>\$ 1,512,682</u>	<u>\$ 167,157</u>	<u>\$ 9,573</u>	<u>\$ 111,919</u>	<u>\$ 6,771,575</u>

LOWELL AREA SCHOOLS
Summary of 2004 Taxes Levied and Collected
For the year ended June 30, 2005

	County of Kent				
	City of Lowell	Ada	Bowne	Cannon	Cascade
Taxes Uncollected – June 30, 2005					
General Fund:					
2004	\$ 1,253	\$ 969	\$ 12	\$ -	\$ 779
2003	1,857	1,629	-	-	904
2002	1,149	2,852	-	-	2,366
	<u>4,259</u>	<u>5,450</u>	<u>12</u>	<u>-</u>	<u>4,049</u>
1990 Debt Service Fund:					
2004	371	287	3	-	231
2003	569	493	-	-	336
2003	326	792	-	-	657
	<u>1,266</u>	<u>1,572</u>	<u>3</u>	<u>-</u>	<u>1,224</u>
2000 Debt Service Fund:					
2004	114	88	1	-	71
2003	168	146	-	-	30
2003	130	317	-	-	263
	<u>412</u>	<u>551</u>	<u>1</u>	<u>-</u>	<u>364</u>
2004 Debt Service Fund:					
2004	14	11	-	-	9
	<u>14</u>	<u>11</u>	<u>-</u>	<u>-</u>	<u>9</u>
Total Taxes Uncollected	<u>\$ 5,937</u>	<u>\$ 7,573</u>	<u>\$ 16</u>	<u>\$ -</u>	<u>\$ 5,637</u>

County of Ionia						
Townships						
Grattan	Lowell	Vergennes	Boston	Campbell	Keene	Total
\$ -	\$ 4,930	\$ 2,259	\$ -	\$ -	\$ -	\$ 10,202
1	2,364	1,865	663	-	-	9,283
4	3,326	11,218	270	-	-	21,185
5	10,620	15,342	933	-	-	40,670
	1,461	670	-	-	-	3,023
1	729	565	209	-	-	2,902
1	160	3,116	75	-	-	5,127
2	2,350	4,351	284	-	-	11,052
-	450	206	-	-	-	930
-	202	167	60	-	-	773
-	86	1,246	30	-	-	2,072
-	738	1,619	90	-	-	3,775
-	56	26	-	-	-	116
\$ 7	\$ 13,708	\$ 21,312	\$ 1,307	\$ -	\$ -	\$ 55,613

Hungerford, Aldrin, Nichols & Carter, P.C.

C P A s A N D C O N S U L T A N T S

October 15, 2005

The Board of Education
Cedar Springs Public Schools

The following comments pertain to our audit of the financial records of Cedar Springs Public Schools as of and for the year ended June 30, 2005. The comments are made in accordance with Statement on Auditing Standards No. 61 "Communication With Audit Committees" which requires that in certain audits, certain matters are to be communicated to those who have responsibility for oversight of the financial reporting process. The communications required by this statement, if pertinent to the examination, are as follows:

1. Auditor's Responsibility Under Generally Accepted Auditing Standards.
2. Significant Accounting Policies.
3. Management Judgments and Accounting Estimates.
4. Significant Audit Adjustments.
5. Other Information in Documents Containing Audited Financial Statements.
6. Disagreements With Management.
7. Consultation With Other Accountants.
8. Major Issues Discussed With Management Prior to Retention.
9. Difficulties Encountered in Performing the Audit.
10. Uncorrected Misstatements (Passed Audit Adjustments).

The communications specified by this Statement are incidental to the audit and are not required to occur before, nor do they affect, our auditor's report on the District's financial statements.

The following are the matters to be communicated by SAS No. 61 based on our observations during the course of our audit of the financial statements and our review and evaluation of the internal control system of Cedar Springs Public Schools:

Auditors Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered Cedar Springs Public School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Cedar Springs Public School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Cedar Springs Public School's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on Cedar Springs Public School's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Cedar Springs Public School's compliance with those requirements.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Cedar Springs Public Schools are described in Note A to the financial statements.

Difficulties Encountered In Performing The Audit

We encountered no significant difficulties in performing the audit of the financial statements of Cedar Springs Public Schools for the year ended June 30, 2005. We found the internal control structure and accounting system to be basically adequate and operating in the manner intended.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. During the course of our audit the following adjustments of a significant nature were made to the accounting records of the District to bring the balances to those presented in the financial statements:

General Fund

1. \$86,824 and \$19,173 to record accounts receivable and deferred revenue for federal and KISD revenues at June 30, 2005.
2. \$16,081 to record 2004 delinquent personal property taxes receivable and \$5,881 to write off uncollected 2001 taxes receivable at June 30, 2005..

Food Service Fund

1. \$5,218 to record the value of USDA bonus commodities received during the year.

2003 Construction Fund

1. \$35,410 to adjust accounts payable to actual at June 30, 2005.

Proposed Audit Adjustments

There were no material adjustments proposed during the audit not recorded by Cedar Springs Public Schools.

Suggestions And Recommendations

We offered suggestions and recommendations regarding the day-to-day operations of the accounting system of Cedar Springs Public Schools to the Director of Finance and Operations, District Accountant and Payroll Specialist as the topics arose during the course of our audit fieldwork. Hopefully, these suggestions will ease the day-to-day operations of the business office and assist in more efficient monthly and year-end financial record keeping and reporting.

Other Comments

The General Fund balance of the District increased by \$1,162,003 to \$3,758,368 at June 30, 2005. This balance represents 13 percent of the District's 2005-06 expenditure budget. The balance at June 30, 2004 was 9.6 percent. Maintaining a fund balance of at least 10 to 20 percent of the ensuing year's expenditure budget is advisable for Cedar Springs Public Schools. This gives the District more stable operating funds during the year, helps avoid or reduce the necessity of borrowing for short-term cash flow purposes and acts as a buffer against the uncertainty of state aid revenues accruing to the District. In addition, employee benefit costs are expected to increase significantly in the next few years, which will require the use of fund balance reserves considering the expectation of small (or no) growth in state aid revenues.

Our audit this year was again completed under the requirements of Statement on Auditing Standards No. 99 "Consideration of Fraud in a Financial Statement Audit" (SAS No. 99), which requires both auditors and their clients to more directly and openly assess those areas within a school district that might be susceptible to fraudulent activity, which would normally include those areas outside the central office that handle cash, inventory, supplies, etc. This is an important audit standard that requires increased face-to-face discussions/interviews with client personnel and extensive documentation of our findings for future reference. We found that Cedar Springs Public Schools has a very extensive network of internal controls within its accounting and record keeping system, and found those tested this year to be operating in the manner intended. Working with District business office personnel, we will be testing other control areas each year as a part of our audit, with suggestions and recommendations to follow the testing each year, to assist the District in maintaining and improving its systems.

This communication is intended solely for the information and use of the Cedar Springs Public Schools Board of Education, administration and others within the organization. We have furnished a copy of this letter to the Michigan Department of Education as an enclosure with the audit report as required by the State of Michigan.

We appreciate the opportunity to provide financial auditing and advisory services to Cedar Springs Public Schools and hope to continue to do so in the future. We also appreciate the dedication and cooperation of the District's administration and accounting personnel in performing their functions and in assisting us in completing ours. If there are any questions regarding the audit report, or the attached communications, we will be happy to address them.

A handwritten signature in black ink, reading "Hungerford, Aldrin, Nichols & Barton, P.C." in a cursive script.

Certified Public Accountants